Austria	Sch24	Iran	Rls210	Pakistan	Rs28
Bahrain	Din0.700	Israel	Shk5.50	Philippines	Peso40
Belgium	BFr55	Italy	L2000	Poland	Zl5,000
Cyprus	C£0.90	Jordan	JD1	Portugal	Esc185
Denmark	DKr12.00	Korea	Won 2000	Qatar	QR8.00
Egypt	E£2.25	Kuwait	Fils.500	S.Arabia	SR8.00
Finland	FM8.50	Lebanon	L£900.00	Singapore	S$4.10
France	FFr7.50	Lux	LFr55	Spain	Pta185
Germany	DM2.50	Malaysia	M$4.25	Sweden	SKr12
Greece	Dr150	Morocco	MDh8.00	Switz	SFr2.50
Hungary	Ft107	Neth	Fl 3.25	Thailand	Bt50
Iceland	IKr160	Nigeria	Naira12	Tunisia	Din0.900
India	Rs15	Norway	NKr12.00	Turkey	L3500
Indonesia	Rp3100	Oman	OR1	UAE	Dh7.00

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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Wednesday November 21 1990

Φ D 8523A

US POLICY
How to pay for the global policeman
Page 22

World News

Washington sets tough conditions for Pakistan aid

Washington, which last month halted aid to Pakistan after unearthing fresh evidence of the country's efforts to develop nuclear weapons, has spelt out tough conditions before military and economic assistance can resume. Page 4

Soviet food shortage

Severe shortages of meat, potatoes and dairy products are hitting the Soviet Union's industrial heartland. Muscovites are using the black market to survive. Page 2

Atlantis lands safely

The US space shuttle Atlantis landed safely at the Kennedy Space Centre in Florida after stormy weather had twice prevented a touchdown in the Mojave Desert.

Air waits criticised

European air travellers face delays on flights whose overall performance is "unacceptably poor", according to the Association of European Airlines. One flight in four was delayed by more than 15 minutes in September.

Trial suspended

A Romanian military court suspended the trial of four former communist bosses and 21 secret police officers accused of mass murder during the uprising against dictator Nicolae Ceausescu, asking for further evidence.

Market massacre

Suspected Sikh separatists opened fire on shoppers in a crowded Punjab market, killing at least 13 people and wounding 15.

Miners killed

Nine South African miners died when an earth tremor shook the Western Deep Levels mine near Carletonville and three others were killed in a rock fall near Klerksdorp.

Hunger strike ends

Slovak nationalists protesting against a new language law have ended their hunger strike in Bratislava. They succeeded in forcing the issue to be reopened.

President sacks son

Somali president Mohamed Siad Barre has sacked his son as commander-in-chief of the armed forces and replaced him with his son-in-law.

Turkish coal strike

A planned strike by nearly 50,000 Turkish miners demanding a pay rise of almost 900 per cent will cut national coal output by almost one third, union officials said. Page 2

Massawa to reopen

Eritrean rebels say they will cooperate with a UN plan to reopen the Red Sea port of Massawa, which they seized in February, to allow food to reach starving Ethiopians.

Salvador offensive

Hundreds of Salvador rebels attacked more than a dozen military positions in a co-ordinated offensive, killing or wounding at least 45 people in heavy combat.

Israel visit agreed

UN secretary-general Javier Perez de Cuellar has agreed to send a personal envoy instead of a commission to investigate the Temple Mount shootings, an Israeli spokesman said.

Saving the reef

Eager to avert an oil spill on its main tourist attraction, the Great Barrier Reef, Australia is to force certain ships to carry pilots.

Revenge of the jilted

A 20-year-old Soviet soldier who commandeered an armoured vehicle and raced through the streets of Berlin for three hours, battering parked cars, had just been jilted by his girlfriend.

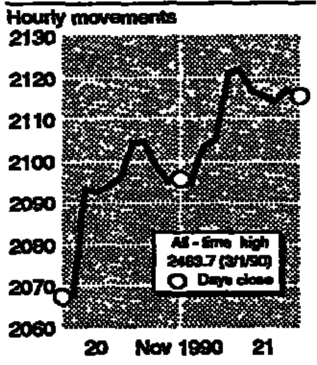
Business Summary

Continental announces sharp loss in earnings

CONTINENTAL, German tyre company under takeover threat from Pirelli of Italy, announced a sharp deterioration in earnings for the first nine months of 1990 and said it would be cutting this year's dividend. It paid DM8 ($5.4) a share in 1989. No actual profit figures were announced. Page 25

FT-SE: Firmness in sterling continued to encourage the equity market and very modest support from institutions proved enough to take the FT-SE Index to a closing level comfortably above the 2,100 mark for the first time in just over three weeks.

FT-SE 100 Index



The market closed well before the outcome of the Conservative party leadership poll. London Stock Exchange, Page 37

WALL STREET: Stocks fell sharply as traders took profits in advance of tomorrow's Thanksgiving holiday. The Dow Jones Industrial Average lost 35.15 points to close at 2,530.20. Markets, Section II

SIEMENS, German electronics group, confirmed that it is holding exploratory talks with Amper, one of Spain's biggest domestic suppliers of telecommunications equipment, possibly with a view to taking control of the company. Page 25

US housing starts fell much more sharply than expected in October by 6 per cent, adding to fears that the US economy is moving rapidly into recession. Page 6

SUZUKI, Japanese motor group which is the world's third largest producer of motor cycles, reports improved profits for the six months ended September. Page 26

TELEKOM, telephone business armof the German Bundespost, is being considered for partial privatisation. Page 2

CANADA is edging towards easing curbs on foreign ownership of its domestic airlines as part of a sweeping overhaul of aviation policy. Page 28

PATHE Communications, main corporate vehicle of Mr Giancarlo Parretti, Italian financier, released third-quarter results showing a $22.5m loss, down from the $37.7m loss suffered in the third quarter of 1989. Page 28

UNION Carbide, US chemicals group, said it expected to sell 50 per cent of its UCAR Carbon business for $232.5m in cash to Mitsubishi Corporation of Tokyo. Page 28

DAYTON Hudson, one of top five US retailers, reported a decline in third-quarter net earnings, due largely to its $1.1bn acquisition of Marshall Field's from BAT of the UK. Page 28

APV, world's largest manufacturer of food processing machinery, is to embark on a major restructuring programme. Page 32

SPAIN'S businessmen have been warned to brace themselves for a continued period of high interest rates. Page 2

AUSTRALIA announced deal with trade union movement under which it will increase tax cuts in return for continued wage restraint. Page 4

Support for Heseltine forces UK Conservative leadership ballot to second round

Thatcher fights for political life

By Philip Stephens, Political Editor, in London

MRS Margaret Thatcher, Britain's prime minister, was last night fighting for her political life following her failure to defeat outright Mr Michael Heseltine, former defence secretary, in the ballot yesterday for the Conservative party leadership.

Despite a defiant pledge that she will enter the second round of voting next Tuesday, Mrs Thatcher will face strong pressure to withdraw when she returns to London today from the European security summit in Paris. Mr Heseltine's supporters predicted that he would be prime minister within a week.

The result – giving Mrs Thatcher 204 of the 372 votes of Tory MPs against 152 for Mr Heseltine – left the prime minister four votes short of the majority of 56 required by the ballot rules. Sixteen MPs abstained.

Speaking on the steps of the British Embassy in Paris, she pledged immediately that she would fight on to win the simple majority required in the second round of voting.

She told reporters: "I'm actually very pleased that I got more than half the parliamentary party."

Emerging from the embassy minutes after the result was announced, she added: "I'm disappointed that it was not quite enough to win on the first ballot, though I confirm that it's my intention to let my name go forward for the second ballot."

But Mr Heseltine's supporters claimed that his campaign had now established an unstoppable momentum which would give him the leadership next Tuesday.

He appeared on the steps of his London house to say: "I am overwhelmed with gratitude to my parliamentary colleagues who in such large measure have given me their support... "I will therefore allow my name to go forward into the second ballot.

Amid chaotic scenes at Westminster, the inconclusive result threw the Conservative party and the government into turmoil. Mr Neil Kinnock, the opposition Labour party leader tabled a no confidence motion in the government which must be debated by the House of Commons within the next few days.

Some senior ministers predicted that the prime minister would face intense pressure today from colleagues and elder statesman in the party to reverse her decision and stand down.

Her stance was publicly backed by Mr Cecil Parkinson, transport secretary, and Mr David Waddington, home secretary. Others in the cabinet, however, said the result was the "worst possible" for the government.

The frenzied atmosphere of drama, despair and anger among Tory MPs at Westminster brought intense – but unconfirmed – speculation that Mr John Major, chancellor of the exchequer, would face pressure to stand against the prime minister. If he decided on that course he would be forced to resign from the cabinet.

Along with Mr Douglas Hurd, foreign secretary, Mr Major nominated Mrs Thatcher for the first round in the leadership battle. In recent days, however, his colleagues – including at least one other senior minister – have been quietly assessing the level of support he might receive.

Mr Hurd has pledged that he will not enter the contest against Mrs Thatcher, but Mr Major has given no such undertaking. The foreign secretary, in Paris last night with the prime minister, said: "The prime minister continues to have my full support and I am sorry that this destructive, unnecessary contest should be prolonged in this way."

But Lord Whitelaw, the former deputy prime minister and one of the most influential elder statemen in the party, was said by friends to believe that Mrs Thatcher should withdraw.

Amid disappointment among the prime minister's supporters, the executive of the powerful backbench 1922 Committee said that it would meet within 24 hours to consider its position.

The committee has so far backed Mrs Thatcher, but some of its members privately expressed dismay last night she had committed herself to the second round without taking soundings within the party.

Mrs Thatcher's determination to fight on, however, was reflected in her decision to ignore the advice of senior party figures on the content of her terse statement from Paris. Mrs Thatcher was advised by Conservative Central Office to give a more ambiguous reaction.

The Challenge to Thatcher, Pages 8, 9; Editorial comment, Page 22; Lex, Page 24; Markets, Section II

Decision time: Mrs Thatcher during the Paris conference yesterday

Poll defeat worries Tories

By Richard Evans and John Authers

THE PRIME minister's supporters were bitterly disappointed that she failed so narrowly to achieve an outright victory on the first ballot, while Mr Heseltine's backers were jubilant at the level of his support.

The view of many Conservative MPs, however, was that politically for the party the result was about as bad as it could be. It will prolong the internal conflict and underline how deep the divisions over the leadership now are.

The reaction of Mr John Biffen, former Cabinet minister, was typical. "A thoroughly bad and wholly uncomfortable result for the party," he said.

City reaction was one of anxiety at the continuing uncertainty.

"It is the worst possible result for the equity market. It's an old cliché that markets hate uncertainty, and we've got that for sure," said one equity strategist.

In New York last night, sterling fell over one cent against the US dollar and eased against the German mark as dealers reacted to the prospect of another week's uncertainty.

Sir Jeffrey Sterling, chairman of P&O, the shipping group, said: "It is vital this uncertainty is resolved as soon as possible. I hope that Conservative MPs will now consolidate behind the prime minister and get on with running the country."

Labour leaders were rubbing their hands with glee, believing that Mrs Thatcher was now a mortally wounded leader, with 45 per cent of Conservative MPs failing to support the premier, and the prospect of more damage being inflicted in the coming week.

The fear of some Thatcher supporters was that votes could drift towards Mr Heseltine on the second ballot if there is a growing belief that the party would be unlikely retain power under Mrs Thatcher at the next election.

Continued on Page 24

PM and challenger ready for round two

By Alison Smith in London

IN THE confusion that followed the announcement of the results, the only clear, instant pronouncements were that both Mrs Thatcher and Mr Heseltine would stand in the second ballot.

Mrs Thatcher's supporters had been warning that Mr Heseltine should consider his positon, while Mr Heseltine's team claimed that Mrs Thatcher's support would ebb away from her in the second round because she had been so badly wounded in the first ballot.

But both candidates were quick to assert their intention of continuing the fight.

Some MPs who had voted for Mrs Thatcher yesterday, however, were saying that they wished to see a new candidate such as Mr Douglas Hurd, the foreign secretary, enter the second round, and would not vote for her again.

They were disappointed by the statement from Mr Hurd, who proposed Mrs Thatcher in the first round, that Mrs Thatcher still had his full support.

Attention will now focus on

Continued on Page 24

Setback for US in bid for UN ruling on use of force

By Peter Riddell and Robert Mauthner in Paris

THE US has so far failed to secure international backing for an early United Nations resolution authorising military action to force Iraq out of Kuwait.

Both the Soviet Union and France, while not ruling out the use of force, want more international discussions before committing themselves to a UN Security Council resolution.

Mr Vitaly Ignatenko, President Mikhail Gorbachev's spokesman, said yesterday that, before any decision could be taken on a new Security Council resolution, the United Nations shouldhave a wide-ranging debate on all aspects of the crisis. Mr Eduard Shevardnadze, the Soviet foreign minister, speaking after talks last night with Mr James Baker, US secretary of state, said that, if necessary, a new UN resolution would be adopted.

Mr Hubert Vedrine, the French presidential spokesman, said France had agreed that talks should begin in the Security Council on the drafting of a resolution foreseeing the use of force against Iraq. But he emphasised that this did not mean that France had already agreed to the use of force.

The US however, is confident that the problem is one of timing and the need for further talks, rather than a fundamental threat to the international coalition against Iraq.

The White House said last night it felt "very positive" about the discussions on a resolution and was "optimistic" about the direction of talks held in Paris with foreign leaders.

But Mr Marlin Fitzwater, the White House spokesman, warned against anything "very specific" emerging in the next day or two. He said that the nature of any resolution, and in particular whether there would be a time frame Iraqi withdrawal, was still uncertain. He sought to reject attempts to divide the alliance, accusing Iraq's President Saddam Hussein of indulging in a "cottage industry of political ploys".

Mr Baker will tomorrow fly to Yemen, which next month will chair the Security Council. He will also go to Oman, where he will see the Malaysian Foreign Minister.

Continued on Page 24
Middle East, Page 4

Warsaw Pact nations agree to dissolve their military alliance

Robert Mauthner and Ian Davidson in Paris

WARSAW PACT countries have agreed to dissolve the military elements of their alliance following the collapse last year of communist governments in eastern Europe.

The announcement, made yesterday by Mr Jozsef Antall, Hungary's prime minister, in a speech to the 34-nation Conference on Security and Co-operation, was the first official indication that an agreement had already been reached by the seven members of the Pact to wind up their military organisation.

Disagreement over this issue was believed to have been the cause of the recent cancellation of a Warsaw Pact summit.

A formal decision to dissolve the Soviet-led alliance as a military pact and to transform it into a purely political organisation is expected to be taken at another Pact summit due to be held in Budapest at the beginning of December.

Mr Antall said that the process of winding up the military alliance should be completed by spring 1992. Forecasting profound changes of the Warsaw Pact in his speech to the conference on Monday, Mr Mikhail Gorbachev, the Soviet president, expressed the hope that this would be matched by a transformation of Nato which would also take account of the changes which had taken place in Europe.

The 16 Nato members, although putting greater emphasis on the political objectives of their alliance following the ending of the Cold War in Europe, nevertheless insist that its military aspects remain essential to ensure their defence.

Most of the east European leaders attending the conference on the creation of a new European security order stressed that there was a risk that a new "economic wall" dividing the rich and the poor countries of Europe would be erected to replace the military Iron Curtain.

Mr Antall, Mr Tadeusz Mazowiecki, Poland's prime minister, and Mr Borisav Jovic, the Yugoslav president, all underlined the need for the process of European economic integration to be extended to the newly democratic and market-oriented countries of eastern Europe.

"For Poland, a rapprochement with the European Community is a major objective of its policy," Mr Mazowiecki said.

Mr Antall expressed the hope that negotiations between Hungary and the EC on an association agreement and closer foreign policy co-operation could start as early as this year and be completed by January 1 1992.

The eastern European leaders' appeals found a sympathetic echo in the speech made by Chancellor Helmut Kohl of Germany to the conference, which ends today with the adoption of a pan-European security and human rights charter.

The united Germany would combine its regained sovereignty with "a modern conception of sovereignty", Mr Kohl said. "Now, as before, we are willing to transfer sovereign powers to the European Community."

CONTENTS

Fujimora enjoys the unenviable task of dispelling chaos in Peru

In his first hundred days in office, President Alberto Fujimori has launched bold attacks on oligopolies, monopolies and the drugs trade, but he manages to make the most daring initiative sound cautious.
Page 6

MARKETS

STERLING
New York close
$1.9705
London:
$1.97 (1.9705)
DM2.91 (2.905)
FFr9.815 (9.8025)
SFr2.4575 (2.4525)
Y254.0 (254.25)
£ index 94.2 (94.0)

GOLD
New York: Comex Dec
$378.5
London:
$378.0 (379.75)

N SEA OIL (Argus)
Brent Jan
$28.60 (30.0)

Chief price changes yesterday: Page 25

DOLLAR
New York close
DM1.4742
FFr4.9705
SFr1.245
Y128.1
London:
DM1.477 (1.474)
FFr4.9825 (4.975)
SFr1.247 (1.245)
Y128.9 (129.0)
$ index 60.0 (59.8)
Tokyo close: Y128.93

US closing rates
Fed Funds $7\frac{9}{16}$%
3-mo Treasury Bills:
yield: 7.29%
Long Bond:
$103\frac{1}{8}$
yield: 8.45%

STOCK INDICES
FT-SE 100:
2,115.2 (+19.3)
FT Ordinary:
1,667.1 (+19.1)
FT-A All-Share:
1,017.38 (+0.8%)
New York close
DJ Ind. Av.
2,548.02 (−17.33)
S&P Comp
317.27 (−2.07)
Tokyo: Nikkei
23,205.48 (−312.68)

LONDON MONEY
3-month interbank:
closing $13\frac{5}{16}$% ($13\frac{5}{8}$)
Liffe long gilt future:
$84\frac{7}{16}$ ($84\frac{3}{16}$)

Partial privatisation would pay for recabling east Germany

Bonn may sell telecom stake

By David Goodhart in Bonn

TELEKOM, the telephone business of the German Bundespost, is being considered for partial privatisation. The move is intended both to raise money to help cover the costs of German unity and to help speed up the re-cabling of east Germany.

Privatisation, or at least the participation of private capital in major infrastructure projects, is now being examined by working groups in the Transport, Environment and Justice ministries and the Chancellor's Office, to help overcome the fiscal and technical problems of unity.

The Bonn cabinet last week set up a study group to investigate the legal possibility of full or partial privatisation for Telekom, which was established as a separate business last year as part of the liberalisation of the Bundespost, but remains 100 per cent state owned.

Mr Christian Schwarz-Schilling, post minister, said he was opposed to full privatisation but did not rule out selling stakes to outside investors, as has happened in the case of Lufthansa, the state-owned airline.

A bigger obstacle is the German constitution, which expressly forbids privatisation of the telephone network. A change to the constitution requires a two-thirds majority in the Bundestag, which currently would be unattainable in view of Social Democrat opposition.

It is not fully clear, however, whether a change in the constitution is required for only a partial sell-off.

German business and the governments of the five new east German Länder are expressing growing concern at Telekom's inability quickly to improve the telecommunications infrastructure in east Germany and favour increased competition as a spur.

Telekom points out that it is already ahead of schedule in its ambitious plan to raise east Germany's telephone system to current west German standards by 1997.

The number of lines between the two parts of Germany will have risen from just over 200 at the beginning of the year to just over 5,000 by the end, and the number of telephone connections in east Germany will have risen by 100,000 to 1.9m.

Telekom has also raised its monopoly on voice traffic (data is already liberalised) where it is unable, within two months, to satisfy a company's demand for a connection with the east German network.

About 30 licences for private satellite links into east Germany have already been granted and four are already functioning. They are provided by three German companies – ANT, Scientific Consulting and Mecom – and by British Aerospace.

This waiving of the voice monopoly is supposed to last only three years to help deal with the bottle-neck in east Germany but may be extended.

Next year alone Telekom is planning to invest DM6.5bn in east Germany, rising to a total of DM55bn over seven years. Mr Joachim Kröscke, finance director of Telekom, is today in London for talks with investors over the DM70bn, out of a grand total of DM200bn over seven years, that Telekom plans to raise from the capital markets.

Stanislaw Tyminski salutes a rally in Kielce. He is drawing crowds as large as Lech Walesa's.

Polish poll candidate faces prosecution

By Christopher Bobinski in Warsaw

THE dark horse in Poland's presidential race, Mr Stanislaw Tyminski, is facing prosecution despite moderating yesterday his recent suggestion that Mr Tadeusz Mazowiecki, the prime minister, was betraying the nation by planning to privatise state-owned factories cheaply.

Government authorities say Mr Tyminski confused turnover figures with the selling price (yet to be announced) of the first five companies, which go on sale later this month.

His remarks have led to the opening of preparatory legal proceedings against him, by the justice minister (in his capacity as prosecutor general), for offending a state office.

If the latest opinion polls are to be believed Mr Tyminski, a 42-year-old Polish Canadian businessman, could push Mr Mazowiecki into third place in next Sunday's election. However, Mr Lech Walesa is still favourite to win.

Mr Mazowiecki is trailing Mr Walesa in the polls, but the prime minister's chances are likely to improve should there be a second ballot. That will be necessary – with only the two front-runners taking part – if no one wins 50 per cent of the vote in the first round.

Mr Tyminski, who left Poland 21 years ago was completely unknown only a few weeks ago. He has run a successful campaign criticising the government's IMF-approved economic policies, warning that Poland is being subjected to "foreign economic aggression."

He has a computer company in Canada, and further businesses, including a cable television network in Peru. He values his business assets at some $5m.

The polls show him commanding nearly 20 per cent of the vote. In Kielce on Monday he drew 2,500 people to a rally – as large a crowd as had come to see Mr Walesa two weeks before.

Mr Tyminski, who is billed as an independent candidate, has appealed to people disillusioned with Solidarity, who admire his personal success and who hope he will be able to repeat it on a national scale.

● *Coalminers at 27 of Poland's 70 pits staged a one-day strike yesterday in pursuit of pay increases being resisted by the government. Originally 40 pits had called for a strike.*

Interest rates warning to Spanish business

By Tom Burns in Madrid

SPAIN'S businessmen were warned yesterday to brace themselves for a continued period of high interest rates. Mr Pedro Perez, Secretary of State for the Economy, also said the peseta would remain for the foreseeable future in the upper band of the exchange rate mechanism of the European monetary system.

Defending the government's restrictive monetary policies, Mr Perez said his department's data indicated that the economy was "cooling" as intended, since the increase in domestic consumption was now down to nearly 4 per cent against an 8 per cent growth rate midway through last year.

The policies would not be reviewed, he said, until there were clear signs that the 7 per cent inflation had fallen.

Addressing the Business in Spain conference Mr Perez forecast that Spain's gross domestic product would continue to grow above the OECD average next year and in 1992, and that the growth would be higher than the increase of the public sector expenditure and of the budget deficit.

FT CONFERENCE

BUSINESS WITH SPAIN; STRATEGIES FOR DEVELOPING COMPETITIVENESS

The cautious government cost controls announced by Mr Perez, however, contrasted with what he termed the "inconsistent performance" of other economic indicators. Unit labour costs in Spain had risen, he said, by 12.8 per cent in the past two years and profit margins, in relation to production units, had shown an "equally important advance."

Increased costs and restrictive government policies formed the background to the conference discussions on strategies for developing competitors. Mr Perez came under fire from the floor for the administration's failure to develop basic infrastructures, from transport and communications to education and vocational training, that would raise the competitive level of Spanish society.

Other constraints on Spain's corporate growth emerged in a discussion on whether the Spanish stock markets were playing a role in financing domestic business. Mr Pedro Guerrero, chairman of the governing body of the Madrid Stock Exchange, said only 90 of Spain's top 500 companies were quoted on the domestic market.

The biggest disincentive to family-owned companies, who might consider a listing in order to raise capital and expand their business, was the punitive tax measures that such a development would involve.

Addressing alternative methods of financing growth, Mr Timothy Davis, country manager of Chase Manhattan's Spanish subsidiary, said cross-border activity was the key to future profitability. He said, however, that Spanish companies were at a "clear competitive disadvantage" with their European and global rivals because of the "application of distorting financial controls", such as a current 30 per cent non-interest-bearing prior deposit for foreign loans.

Disagreements emerged in a discussion on the electrical utilities in which Mr Fernando de Ybarra, chairman of Sevillana, a large private supplier, complained of overbearing government intervention on pricing and investment, whereas Mr Feliciano Fuster, chairman of the state-controlled utility Endesa, urged greater regulation and a government-promoted rationalisation of the sector in order to raise its competitive level.

Contrasting views in the banking sector were also expressed by Mr Emilio Ybarra, chairman of Banco Bilbao Vizcaya, Spain's largest banking group, and Mr Arturo Romani, chief executive of Corporacion Industrial, the holding company of Banesto, the third-ranked domestic bank.

Mr Ybarra stressed that Spain's banking institutions ought to concentrate on covering their home market and only cautiously approach foreign expansion. "Big corporate business, within the framework of the EC," Mr Ybarra said, "is dominated by some 15 European banks that do not require much more than one office per country in order to operate."

Mr Romani said Banesto's decision to create a holding for its industrial assets marked out a course along which Spanish companies could gain economies of scale and so meet the challenges of single-market Europe.

Other speakers at yesterday's conference were Mr Mariano Rubio, governor of the Bank of Spain, Mr Jose Garcia Hermoso, deputy chairman of the Stock Exchange Commission, and Mr Juan Fernandez-Layos, president of Mapfre Vida, Spain's leading life insurance company.

Soviet food crisis begins to bite

Leyla Boulton explains how Muscovites are surviving the food shortage

EVERYBODY knows Soviet food shops are virtually empty and that foreign governments are considering emergency food aid. But as starvation beckons, how do Muscovites manage to survive?

The answer – in the rest of the Soviet Union as well as Moscow – is that people queue for hours to buy what little there is. They also use the black market, buy food at their office or factory canteens and accept a monotonous diet.

This was always the way in the Soviet Union. But now, with even basic supplies difficult to come by, people are hoarding food in the belief that there may be nothing tomorrow, thus making the situation worse.

Mr Alexander Sokolov, the director of Gastronom No 60 in central Moscow, one of the better-stocked shops, says: "Every time one of our leaders or an economist appears on television and says things will get worse, people panic and throw themselves on to whatever they can buy."

His shop offers several items, from imported Teachers whisky at Rbs80 a bottle, to potatoes at 40kopecks a kilo. But the assortment is so erratic that people usually have to visit more than one shop to get the ingredients for a basic meal.

Gastronom No 50, for instance, may happen on a particular day to have sweets – now rare – but no vegetables.

Even butter, eggs, and milk are no longer in regular supply; when they do surface, people may have to queue for between 40 minutes to three hours, until stocks run out.

When a consignment of bananas hit town last weekend, shoppers bought as many kilos as they could carry. And only people with so-called "visiting cards", proving they are residents of the Moscow area, can use the capital's shops.

City authorities would now like to introduce rationing but are not sure they can guarantee even minimum supplies. The situation is far worse in isolated settlements, which may have only one shop with two or three items in it.

The main victims of the increased hardship are Soviet women because most husbands don't like queueing. "I have three children to feed, including a husband," joked Ludmilla, a radio journalist.

Shops even have plentiful supplies sometimes – but only of goods which nobody wants to buy. Shelf after shelf in Gastronom No.50 is filled this week with boxes of imported Turkish tea, but nobody is touching the stuff.

"Even in our crisis, people aren't buying the tea because it has no taste. The government probably bought it on the cheap, but they should try drinking it," explained Natasha, a secretary.

In another corner of the shop, a saleswoman with a vacant look sits by a couple of boxes of unwrapped, semi-frozen Siberian salmon. But even more surprising than the unexpected appearance of decent-looking fish is the fact that nobody is buying it. Why? "First, because it is expensive at Rbs10.95 a kilo and secondly, because most people don't know how to salt it," according to one shop assistant.

Illustrating the completely unpredictable nature of the central supply system, Food Store No.10 with "milk" and "meat" painted on its windows, contains nothing but dirty jars of stewed fruit. It is closed – without explanation.

Apart from office canteens, another source of food for Soviet shoppers is the ubiquitous black market. Shop assistants set aside scarce goods for acquaintances who will pay the right price. Hard-up pensioners or well-heeled sharks buy up goods in short supply at relatively cheap state shops and sell them off at a profit.

Mr Sokolov, who runs Gastronom No.50, is sceptical of President Gorbachev's promise of a law and order campaign to improve distribution.

"Of course I observe the law. But we need to change the problem and create a market," he exclaimed. "We need to conduct a referendum and then introduce market prices.

Turkish miners seek 876% pay rise

A PLANNED strike by nearly 50,000 Turkish miners demanding a pay rise of almost 900 per cent will cut national coal output by almost one-third, union officials said yesterday, Reuter reports from Ankara.

"There is a huge gap between our wage increase demands and employers' offers. It is not possible to reach an agreement," said Mr Mehmet Tezer, chairman of the Ankara branch of Genel Maden-Is, the miners union.

He said Maden-Is wanted an 876 per cent increase over the present minimum daily wage of 8,705 lira (£1.63) for 48,500 miners at the Zonguldak mine on the Black Sea coast.

The state-run Turkish Coal Board (TTK) has offered 17,000 lira a day, a rise of 95 per cent.

The strike, due to start on November 30, will slash Turkish coal production by 32 per cent, said Mr Tezer.

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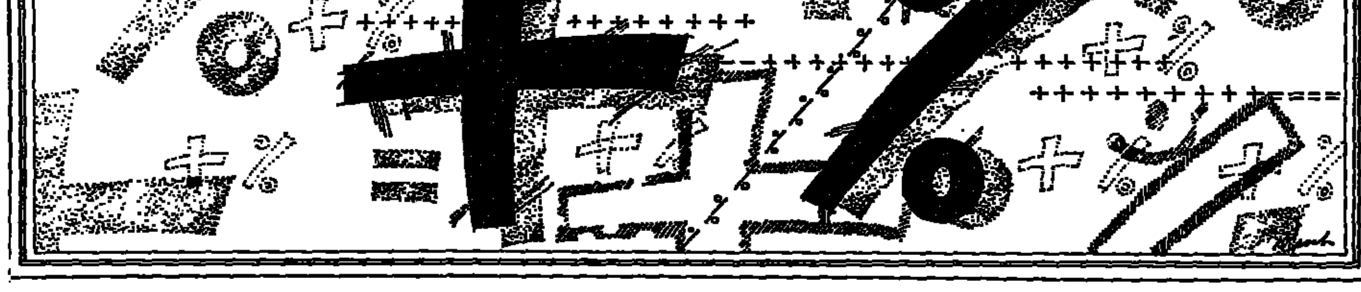
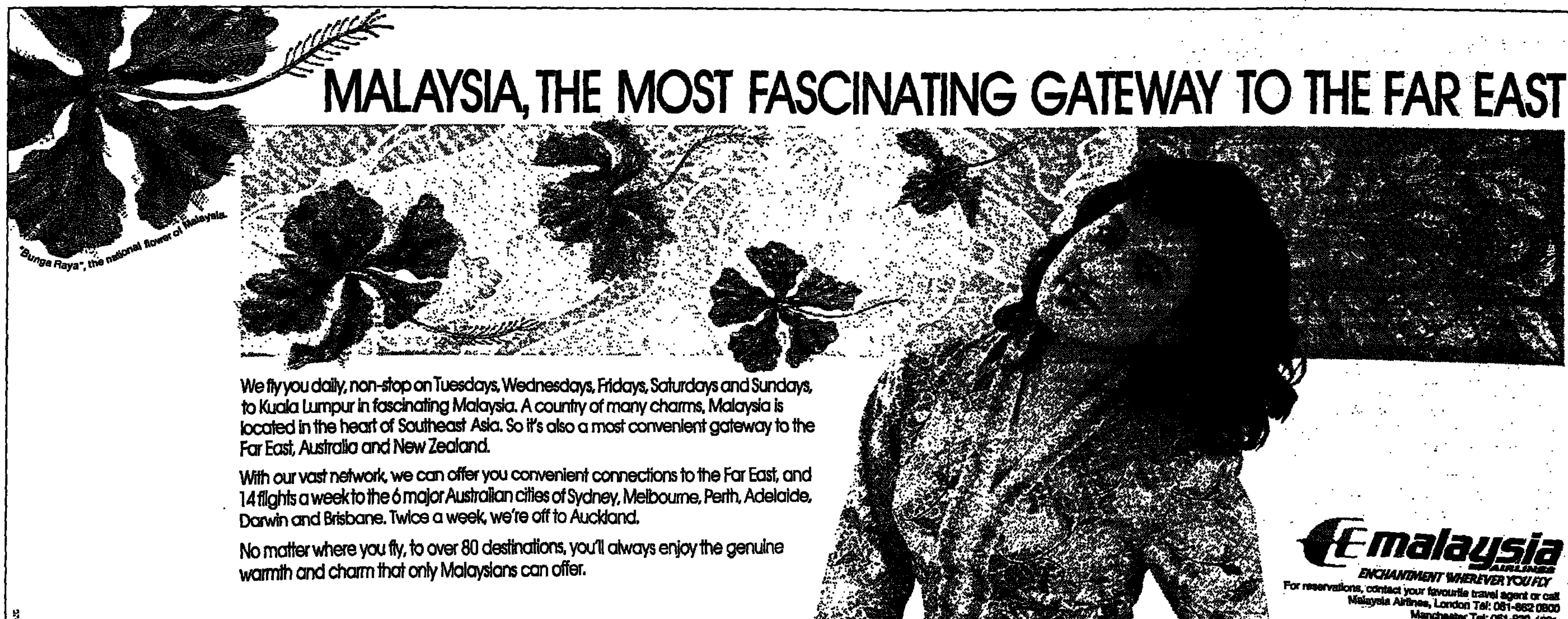




EUROPEAN NEWS

Bosnia elections test stability of Yugoslavia

By **Laura Silber** in Belgrade

NATIONALIST parties are leading in multi-party elections in the central Yugoslav republic of Bosnia-Hercegovina, according to results based on 30 per cent of the vote.

More than 2m voters overwhelmingly divided along ethnic lines in last Sunday's elections to the republic's parliament and presidency.

The early results indicate that tensions between Bosnia's Moslems, Serbians and Croatians have undermined support for Yugoslav-orientated parties, the ruling Communists and the League of Reform Forces, the party led by Mr Ante Markovic, the prime minister.

Narrower, ethnic-based parties have taken all seven seats on Bosnia's collective presidency; final results for the parliament have yet to be declared. Moslems, who make up 40 per cent of Bosnia's population of 4.1m rallied to the Party for Democratic Action and elected Mr Alija Izetbegovic, its leader, to the presidency.

Serbs – 30 per cent of the population – swung their support behind the Serbian Democratic party, which threatens to set up a parallel government in Bosnia if the Moslems put the Serbs' entrenched rights in question.

The poor showing by the Communists and the League is a blow to Mr Markovic, whose economic reforms have been regularly stymied by the republics. A second round of voting takes place on Sunday in Bosnia-Hercegovina and in Macedonia.

Reformed communists and Mr Markovic's party took four out of 11 confirmed seats in elections held on November 11. The two parties will face a challenge from the Party for Democratic Prosperity representing Macedonia's Albanian minority, which took five of the 120-parliamentary seats.

Efta comes closer to setting out its European stall

David Buchan and Robert Taylor preview talks with the EC on the establishment of a broader market

THE logjam in the negotiations between the European Community and the European Free Trade Association on the creation of a 19-nation European Economic Area, like those on the Finnish lakes in the early spring, is moving, though it has not yet broken up. Today and tomorrow the two sides meet in Brussels in the hope of making progress.

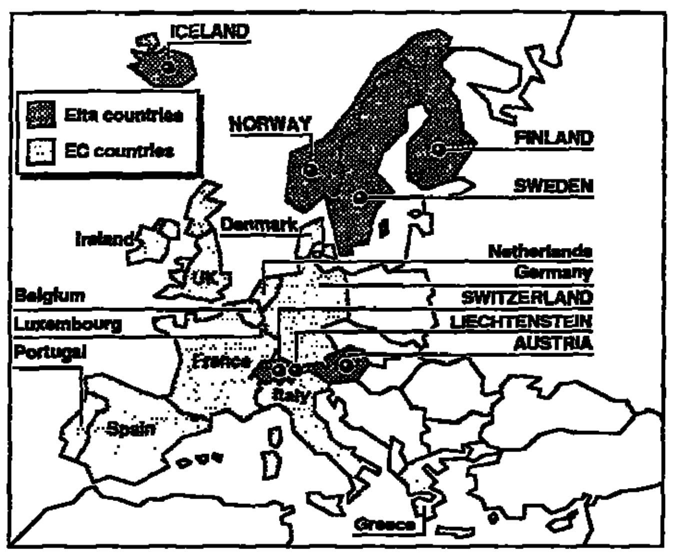
Negotiators do not expect to see a big breakthrough this week but the gloomy atmosphere of their last session in October has certainly cleared away. To everyone's surprise and a few people's horror, the EC-Efta negotiations to extend as much as possible of the Community's single market freedoms of capital, goods and services to the EEA is back on track.

Ministers from both sides can expect to find themselves much closer when they meet on December 4. Efta officials hope agreement can be reached on the EEA by the end of next June at the latest so the EEA can be ratified by Efta member parliaments before coming into force on January 1 1993 along with the EC's single market.

A growing number of Efta members regard the EEA accord as only a stepping stone on their way to applying for full EC membership. Austria made its application 16 months ago, while the Swedish government announced last month that it wished to join the EC. Finland is less happy about such a move for the moment, anxious not to divert attention from the EEA negotiations or weaken their chances of success.

The big change has come in Norway. The new Labour minority government under Mrs Gro Harlem Brundtland which came into office a fortnight ago after the downfall of the centre-right coalition does not intend to make any quick application for EC membership but it has already announced that it is ready, in order to join the EEA, to repeal Norway's so-called concessionary laws that safeguard the country's industry, fisheries and financial institutions from foreign ownership.

The last government – under pressure from the anti-EC Centre Party – had drawn up a formidable list of exemptions it wanted for Norwegian interests to be protected in the EEA which were unacceptable to Brussels. The Centre Party brought down the coalition to which it belonged because it opposed any weakening of its tough negotiating stance on the exemptions, only to find it allowed into power a Labour government willing to be much more flexible in the talks.



The change in Oslo has enabled the Efta side, which in these negotiations includes the principality of Liechtenstein, to shift its position towards that of the EC.

As a result, Efta is now ready to drop any demands for permanent exemptions and ask instead for transition periods during which sensitive areas such as finance, farming and forestry can adjust to EC or EEA open ownership rules with temporary safeguard clauses. The arrival of Mrs Brundtland this week will be reflected in the Efta negotiating stance on this question which threatened to block progress.

The real problems ahead lie mainly in what kind of decision-making and supervisory bodies will be needed for the EEA. The Efta side has indicated its willingness to establish its own separate competition body to control state aid to companies (which is significant in Austria and Norway) and cartels. This could introduce a significant supra-national feature into Efta but the practical question remains of deciding which bodyshould deal with "mixed cases" (involving EC and Efta companies).

However, EC president Mr Jacques Delors and his colleagues are making some tough terms on the institutional question. It has been made clear to Efta there cannot be joint decision-making. What the EC is ready to do is allow the Efta side to have a say at all stages of the early process of elaborating future EC legislation.

The Efta side fear that even if they gain a hearing early on, they could be presented with unpleasant legislative surprises as *faits accomplis* by the EC council of ministers and the European parliament.

The EC side is, however, willing to allow Efta states to participate in the work of the various EC committees either as permanent or partial members. Considerable progress has been made to involve Efta with the EC in the so-called "flanking areas" of the EEA, such as education, research and development and the environment.

A new cloud on the EC-Efta horizon is emerging, however. The poorer southern EC states – Portugal, Spain and Greece along with Ireland – want the wealthier and more industrialised Efta to create a separate financial fund to help them in the single market.

This idea horrifies Mr Delors who sees it as a threat to the EC's cohesion. "Are you ready to sell the Community's soul for a plate of lentils?" he asked EC ministers last week.

Honecker book claims he fell victim to 'a vast manoeuvre'

By **David Marsh** in Bonn

IN a bid to explain his downfall last year, Mr Erich Honecker, the former East German leader, has turned to that favourite resort through the ages of deposed monarchs, dismissed football managers and downtrodden tyrants: the conspiracy theory.

Mr Honecker, 78, living now as a near-penniless pensioner in a Soviet military hospital, says in a soon-to-be-published book that he was the victim of "a vast manoeuvre, where the people pulling the strings are keeping still in the background".

In the book, based on recent interviews with the former party leader, Mr Honecker heaps criticism on Mr Egon Krenz, his short-lived successor, who took over the reins in East Germany for six weeks last autumn.

Mr Honecker asks in an injured tone why Mr Krenz – who for six years was responsible for security affairs in the East German Politburo – was not now facing the same judicial investigations as other former East German party bosses.

Showing the same detachment from reality which characterised his 18 years as party leader, Mr Honecker says opposition to his reign caught him completely by surprise. The moves against him within the Politburo were "conspiratorial".


Erich Honecker: Politburo moves were "conspiratorial"

In the manner of countless managing directors dispossessed by machinations on the board of directors, the former leader protests that Mr Krenz and Mr Erich Mielke, the former secret police chief, played out "a disgraceful game behind my back."

Mr Honecker adds to the impression of utter witlessness by declaring he was astonished when Politburo members applauded upon his announcement of his resignation in October 1989. "They all clapped .... That had never happened before in the Politburo."

Mr Honecker declares that he knew nothing of Mr Mielke's countrywide network of nearly 200,000 secret police employees, expostulating that he thought the number was more like 35,000.

Somewhat in the manner of the Bourbon kings who forgot nothing and learned nothing, Mr Honecker says he was innocent of charges of manipulating elections. He termed later-unearthed evidence of electoral fraud "a riddle ... For me, electoral manipulation is something terrible."

Spanish church leaders denounce condom campaign

By **Peter Bruce** in Madrid

A STRANGE alliance of hooligans, priests and housewives has emerged in Spain in response to a surprisingly frank $8m government campaign on radio and television and in newspapers to encourage teenagers to use condoms.

On Monday Cardinal Angel Suquia, head of the Spanish Bishops' Conference, denounced the campaign in the fiercest attack by the Catholic Church in eight years of Socialist government.

Not long afterwards fascist thugs ran around one of the great centres of Castillian catholicism, Valladolid, smashing all but two of the 47 telephone kiosks carrying the campaign slogan: "Pontelo, Ponselo" ("Put it on, put it on him").

In Madrid today a group of mothers plans to launch a legal campaign to stop the condom advertisements, citing infringements against laws protecting the family and privacy, the Spanish constitution and the European convention on human rights.

The condom campaign is further evidence that outside its colourful religious rituals, Spain is no longer a Catholic stronghold. Despite the fascist attacks in Valladolid, not even the main right-wing political party, the Partido Popular, has dared oppose the campaign for fear of alienating voters. Last year only 39 per cent of taxpayers elected to allow 0.5 per cent of their dues to be paid to the Catholic church.

The country does, however, have growing AIDS and abortion problems. One in four pregnancies now ends in abortion (in Spain or abroad, mainly in London). There were 135,000 abortions performed in 1989, 105,000 of them illegal. Worse, Spain now has Europe's third largest number of AIDS sufferers – 6,210 – with between 800 and 900 new cases being diagnosed every quarter. That is double the rate reported in 1986.

Nevertheless Cardinal Suquia, who has fought and lost a string of battles with the Socialists, mainly over religious education and abortion, accused them of "abusing their power" by "imposing a lay culture" bereft of values, on the country. The Vatican has also expressed its horror at the campaign and asked pharmacists not to sell condoms.

Bruton to head Irish opposition party

By **Kieran Cooke** in Dublin

MR JOHN BRUTON has been elected leader of Fine Gael, the main opposition party in the Irish parliament. He replaces Mr Alan Dukes, forced to resign the leadership last week following Fine Gael's poor performance in the recent presidential election.

A farmer, economist and barrister, Mr Bruton, 43, is known as both a conservative and a radical and has had experience in virtually every government department.

Mr Bruton faces the tough task of reviving Fine Gael's flagging fortunes and presenting the party as a viable alternative to the government led by Mr Charles Haughey the Irish prime minister, and his Fianna Fail party. In his first speech as party leader, he said there would be a thorough reorganisation of Fine Gael. Mr Bruton also promised early action on several issues, including bringing in divorce laws and re-examining articles in the constitution which lay claim to Northern Ireland.

THE MIDDLE EAST

Saddam tells deputies to free all German hostages

By Victor Mallet, Middle East Correspondent

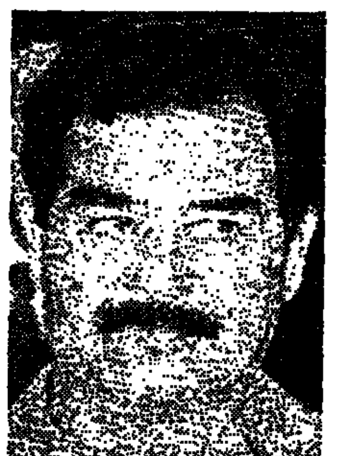
PRESIDENT Saddam Hussein of Iraq, in a further attempt to divide the international community, yesterday called on Iraq's subservient National Assembly to release all German hostages held since the Iraqi invasion of Kuwait in August.

At the same time, the assembly passed a law mandating the death penalty for anyone hoarding grain, and providing for a government monopoly of the cereals trade and bans on private sales by farmers or merchants.

Baghdad Radio quoted Mr Saddam as urging the Assembly to release the 180 or so remaining Germans – 44 of them held as "human shields" at strategic sites – because Chancellor Helmut Kohl had called for a peaceful solution to the Gulf crisis when he met President George Bush.

"Records of Arab history have not registered that Germany has done anything wrong to the Arabs," the letter said, adding that statements by Mr Kohl and former West German Chancellor Mr Willy Brandt had revived hopes of Iraqi-German friendship. It was not immediately clear when the Germans would be freed.

Mr Saddam's call received a universal welcome in Bonn. Coming just 12 days ahead of the German general election on December 2, it seems likely to give a further modest political boost for Mr Kohl.



Saddam: boost for Kohl

Mr Hans-Dietrich Genscher, the foreign minister, said in Paris he hoped it was a prelude to freeing all hostages from other nations. He denied that it was an attempt by Mr Saddam to drive a wedge between members of the anti-Iraq alliance.

Iraq has already released all French hostages following mediation by the Palestine Liberation Organisation, one of Iraq's allies.

In Amsterdam yesterday, two Dutch dredging companies said Iraq would release 215 foreign dredging workers, including 105 Dutch nationals, by the middle of next month.

In Baghdad, a delegation of Swiss politicians seeking the release of 24 Swiss citizens and a number of other foreigners working for Swiss companies said Mr Saddam had promised to free some of them.

Three Canadian parliamentarians were also in Iraq yesterday for talks with Iraqi officials aimed at securing the release of 45 Canadians.

Turkey, an important member of the anti-Iraq alliance, will not restrict the flow of the Euphrates or the Tigris to put pressure on Iraq, according to the Turkish ambassador in Washington, quoted by the Anatolian News Agency.

As the US sought to gather support for a UN resolution authorising the use of force to drive Iraq out of Kuwait, advocates of a negotiated settlement continued to seek other ways of ending the crisis.

King Hassan of Morocco, whose call for a full-scale Arab summit fell on deaf ears, suggested yesterday that there could be a smaller meeting between Iraq and its Arab opponents as a first step.

Mr Alexander Belonogov, Soviet deputy foreign minister, told Pravda newspaper that the door should not be closed to a dialogue with Iraq "although we firmly disagree with its actions".

The centre-ground gets hotter for Hussein

Jordan's king is finding no joy in neutral stance on Gulf crisis, writes Tony Walker

KING HUSSEIN of Jordan this week was again sounding more like a radical prophet of doom than the pro-western darling of the US and Britain that he once was.

The king accused the west and the US in particular of "double standards" over the Palestine and Gulf questions, and observed that "their real goals stem from their desire to control our destiny and the Arab nation's resources".

The US showed its displeasure when it told the Jordanian monarch that a meeting he had requested with US President George Bush in Paris this week would be postponed to a an unspecified date. So it is that once close ties between Washington and Amman continue their bumpy ride.

For tiny, vulnerable, resource-poor Jordan costs are increasing of its generally pro-Iraqi stand – a stand that has profoundly disappointed its western friends, no less than it has delighted the majority of its subjects.

The king's use of the opening of parliament at the weekend to deliver another attack on what he regards as western double-dealing suggests that he still feels the need to play to the local gallery, but at the same time there are signs that Jordan has been edging towards a more neutral position.

Economic pressures and a sense in Jordan that it is in danger of becoming dangerously isolated – neighbouring Saudi Arabia balked recently before allowing King Hussein's plane to cross its airspace on the way to Oman – are having an effect.

Jordan's decision late in October to ban the shipment of all goods, including food and pharmaceuticals to Iraq and Kuwait, was meant as a clear signal to the international community that it was intent on enforcing UN sanctions against Iraq.

That action, among others, was rewarded with a favourable recommendation from a special UN envoy, who visited Jordan in October, on the need for immediate financial assistance to help the Jordanians cope with an economic crisis that becomes more acute by the day.

Other recent indications of a slight shift in the Jordanian position include the statement earlier this month of Crown Prince Hassan – the king's brother and heir to the throne – in which he said that a purely "Arab solution" to the Gulf crisis was no longer possible.

Previously, King Hussein had insisted that the only way to resolve the issue was through Arab mediation. Now, Jordan is acknowledging the need for international involvement in its resolution.

Western officials in Amman say that the king has been fairly successful in "putting some daylight" between himself and Iraq since the seizure of Kuwait on August 2. As one observed: "The most vehemently pro-Saddam elements haven't realised how far he has gone."

In this move towards a more acceptable position, as far as the west is concerned, the king has been helped to a degree by a slight shift in mood in Jordan itself. Jordanians returning from Kuwait in their tens of thousands – it is estimated that about 200,000 Jordanian passport holders have returned since the crisis erupted – have been spreading negative stories about the invasion.

At the same time few Jordanian families have escaped the financial consequences of the crisis one way or another. Remittances from Kuwait have stopped; unemployment, already high, is on the rise and may reach 40 per cent by early next year; very few tourists visit Jordan these days; construction activity is down by half; industry is likely to slow to a crawl by the end of the year; and, perhaps worst of all, funds from wealthy Gulf benefactors have all but dried up.

The situation would be even more disastrous if Jordan was obliged to pay its debts, but it has, like other states directly affected by the crisis, declared a virtual moratorium on repayments on its unmanageable $8bn foreign debt.

Jordanian officials complain that the west has been extremely parsimonious in providing assistance and they blame the US for showing its displeasure with Jordan by blocking the disbursement of aid. The only assistance thus far has come from Germany with an additional amount pledged by Japan.

These officials say, and there is no reason to disbelieve them, that unless Jordan receives substantial assistance by next year it will find itself in a really parlous condition with foodstocks running down and items such as medicines in short supply.

While there may be some muted criticism in private of the man most immediately responsible for Jordan's plight, namely Iraq's President Saddam Hussein, there is certainly no sign of this in the local press which continues to be steadfast in its support of Iraq and to give no space to opposing viewpoints.

A prominent Palestinian who has tried to argue for a more neutral stand on the crisis said that he had been subjected to "intellectual terrorism". For one thing, he had been accused of being "too objective".

King Hussein himself faces a similar dilemma. While his expressions of understanding for the Iraqi position have won him unprecedented popularity in Jordan, there is also a potential cost. Jordan's monarch is riding a potentially unruly tiger and neither he nor anyone can predict how the Gulf crisis will evolve.

Successive border incursions in which two Israeli soldiers were killed and the perceived mounting strength of Islamic fundamentalists have provoked loud expressions of disquiet about the situation in Jordan by Israeli politicians and military officers, Hugh Carnegy writes from Jerusalem.

Mr Yitzhak Shamir, the prime minister, has spoken this week of his concern over what he called "Islamic hysteria" in Jordan. Senior officials have speculated that King Hussein appears increasingly vulnerable and may not be able to survive the Gulf crisis.

An immediate worry is of increased incursions like the two this month along the normally quiet Jordanian border, which the Israeli military regards as a test of the control exercised by the Jordanian authorities over radical Palestinian and Islamic groups.

The longer-term worry is of widespread instability in Jordan, which forms a land bridge between Israel and Iraq and where popular support for President Saddam Hussein is strong. Israel has sent discreet messages to King Hussein during the Gulf crisis seeking to assure him that Israel wants to see him maintain his hold.

However, the frequent public expressions of doubt in his ability to do so – especially from Israeli government ministers who openly say they want to see Jordan form a Palestinian state – tend only to fuel Jordanian and Palestinian suspicions about Israel's true motives.

Democrats take Bush to court over authorising war

By Lionel Barber in Washington

A GROUP of 45 House Democrats yesterday went to a federal court in an effort to force President George Bush to seek authority from Congress before ordering a US military offensive to drive Iraqi troops out of Kuwait.

The lawsuit's success remains uncertain because the constitutional authority on war powers is divided between the president, as commander-in-chief, and Congress and has been open to dispute for 200 years. The courts have been reluctant to intervene, arguing that such disputes should be settled in the political arena.

Democrat lawmakers led by Congressman Ron Dellums of California – the nearest thing to a "peace party" in Washington – have calculated that the publicity surrounding to the lawsuit will reinforce the mood of unease in the country about the prospect of an offensive war against Iraq.

A New York Times/CBS poll published yesterday contributed to the impression that Mr Bush has still to convince Americans of the reasons not only for sending troops to Saudi Arabia but also for fighting a war which may have thousands of casualties.

The national poll of 1,370 adults around the US, excluding Alaska and Hawaii, showed that 51 per cent of Americans believed Mr Bush has not explained the deployment (compared to 34 per cent in August); and 48 per cent said the administration had been too hasty to get US forces involved rather than pursue diplomatic solutions.

Seventy-one per cent said the US should wait and see what Iraq does before attacking, while only 21 per cent said the US should begin military operations soon. The poll showed that the most favoured reason to fight against President Saddam Hussein was the need to prevent him from developing nuclear weapons, rather than defending Saudi Arabia and protecting the world's oil supply.

In recent days, Mr Bush has touched on the nuclear issue in an effort to find the elusive words which will swing the Congress and the public fully behind his Gulf policy. The decisive shift in mood followed the surprise announcement two weeks ago that the US was doubling its forces and providing them with an offensive option.

The administration now recognises that it blundered by not properly preparing the public or Congress.

Kuwaiti army volunteers at prayer at a training camp in Saudi Arabia. About 7,000 Kuwaiti civilians are undergoing training.

Five die during Israeli action in Lebanon

By Hugh Carnegy in Jerusalem

ISRAELI troops and a group of Palestinian guerrillas have clashed in Lebanon during an operation by Israeli forces north of the border "security zone" they occupy, amid deepening concern in Israel over developments in Lebanon.

At least four Palestinians, said to be from the Palestinian Struggle Front, and an Israeli lieutenant were killed in the clash, which took place on Monday around the village of Ain Atta. It was the third ground operation this month launched by Israeli forces north of the security zone.

The Israeli authorities are worried about increased guerrilla activities in southern Lebanon by Palestinian and Islamic groups following the withdrawal from Beirut into the area of three militias, Hizbollah, Amal and the Druze Progressive Socialist Party, under President Elias Hrawi's Syrian-backed plan to reunite the city.

Israel has said it will not tolerate any threat to control over the town of Jezzine, well north of the security zone, by its Christian militia surrogate, the South Lebanese Army.

Meanwhile, the main Christian militia in Beirut, the Lebanese Forces, also once allied to Israel, failed to withdraw from the city by a Monday night deadline set by President Hrawi's government. Officials said he did not rule out the use of force to make the militia withdraw and complete the plan for a "Greater Beirut" under Lebanese army control.

The Lebanese Forces are worried about the security of their Christian community in East Beirut.

Concern over disappearances in Morocco

By Victor Mallet, Middle East Correspondent

AMNESTY International, the London-based human rights group, has expressed concern about the fate of hundreds of civilians from southern Morocco and the Western Sahara who seem to have disappeared after being arrested by Moroccan security forces.

In a report* published today, Amnesty says a proposed UN-sponsored ceasefire in the conflict between Morocco and the Polisario Front, followed by an amnesty for political prisoners, should include an inquiry into all cases of "disappearance".

The organisation says it cannot confirm a list of more than 800 "disappeared" people compiled by the Saharan Red Crescent, but it believes that several hundred civilians arrested between 1975 and 1987 may still be held.

Morocco took control of the the former Spanish colony of the Western Sahara in 1975. Polisario is fighting for the territory's independence.

Amnesty – which also accuses Polisario of holding and reportedly torturing prisoners without trial – says those who have "disappeared" in Moroccan government custody include civil servants, traders, pastoralists, housewives and journalists.

**Morocco: "Disappearances" of people of Western Saharan Origin, Amnesty International, 1 Easton St, London WC1X 8DJ.*

Human rights 'often violated in Iran'

By Scheherazade Daneshkhu

HUMAN rights violations are frequent in Iran and government action to prevent them has been insufficient, says a United Nations report. The document was compiled by Mr Reynaldo Galindo Pohl, a UN Human Rights Commission representative, after a visit in October, his second in a year.

His earlier study, published in February, was condemned by the Mujahideen opposition as "biased in favour of the Khomeini regime and its executioners." Mr Pohl, a Salvadorean, rejected the charge but said he had at the time been unable to investigate fully.

This week's report said that "the enormous quantity and variety of allegations and complaints received from very diverse sources .. [support] the belief that human rights violations occur frequently in the country". But he noted that Iran had started to implement recommendations, such as allowing the International Committee of the Red Cross to visit prisons.

Reuter adds from Rome: Mr Giulio Andreotti, Italy's prime minister, will visit Iran, though no date has been fixed. Italy was the first European Community member to restore links with Iran since a February 1989 vote to withdraw senior envoys to protest over a death threat on British writer Salman Rushdie.

Australian unions accept pay restraint in return for tax cuts

By Kevin Brown in Sydney

THE Australian government yesterday announced a deal with the trade union movement under which it will increase tax cuts in return for continued wage restraint.

The deal will help curb inflation, which is now expected to fall below 6 per cent early next year, and should improve the prospects for a further agreement with the unions for 1991-92.

The pact will cost A$430m (£169m) this year, and A$1bn in a full year. Mr Paul Keating, the Treasurer (finance minister) said most of the lost revenue this year would be financed from windfall gains in taxation caused by higher oil prices.

The deal follows an unexpectedly small increase in inflation in the September quarter, when the consumer price index rose by 0.7 per cent, compared with forecasts of 1.5 per cent, cutting the annual rate from 7.7 per cent to 6 per cent.

The September CPI increase would have triggered equivalent pay increases under the the government's accord with the unions, the government's main weapon for restraining wages growth and reducing industrial unrest.

However, the unexpectedly low increase provided a relatively low cost opportunity for the government to offer further tax cuts as an alternative to higher wages.

The deal will increase tax cuts for workers on the average wage of A$575 per week from A$7.50 to A$10.80, equivalent to a gross increase in wages of A$18. Other elements of the accord remain unchanged, including a flat payment of A$12 in mid-1991, and increases in pension rights.

Mr Keating said the deal would cut aggregate growth in wages to 6.25 per cent this year, and should push inflation below 6 per cent by next June provided oil prices did not continue to rise.

Analysts said inflation was expected to rise in the December quarter as the effects of oil price increases work through, but could fall below 6 per cent as early as March.

The revised deal is subject to confirmation by a special conference of the Australian Council of Trade Unions (ACTU) next month, but is unlikely to be rejected because of the unions' strong support for the accord.

The Confederation of Australian Industry, the main employer organisation, said the deal provided an opportunity to make further inroads into Australia's inflation rate.

US sets out tough nuclear conditions on Pakistan aid

By Lionel Barber

THE US, which last month halted its aid to Pakistan after unearthing fresh evidence of the country's efforts to develop nuclear weapons, has spelt out tough conditions before military and economic assistance can resume.

Mr Robert Oakley, US ambassador to Pakistan, has told the new government in Islamabad that it must prove that it does not possess nuclear components. This goes a step further than the earlier US requirement that Pakistan merely demonstrate that it does not possess "a nuclear explosive device".

Mr Oakley made public the stiffer conditions in a letter to Pakistan's Nation magazine. The tougher US stand stemmed from a spurt in Pakistan's nuclear weapons programme during a period of high tension earlier this year between Pakistan and India over the disputed state of Kashmir.

The Washington Post reported yesterday that at a plant in Kahuta, roughly 25 miles from Islamabad, Pakistan appeared to have resumed its enrichment of uranium to the quality required for nuclear weapons. This activity contradicted earlier Pakistani assurances that it would be stopped.

At the same time, Pakistan took steps which led US observers to believe that it might deploy nuclear weapons on F-16 fighter jets, the Post reported.

These moves so alarmed the Bush administration that it declined to accept Pakistani assurances that it has "no nuclear explosive device" – the key condition for sending aid to Pakistan as required by an amendment to the Foreign Assistance Act.

During the 1980s, when Pakistan was a vital conduit for aid to the anti-Soviet Afghan rebels, successive administrations saw these assurances as virtually routine. But the withdrawal of Soviet troops from Afghanistan coupled with evidence that Pakistan has continued to pursue its nuclear weapons programme has meant that Washington no longer was willing to turn a blind eye.

Congress, too, has urged the administration to toughen its stand before resuming economic and military aid totally roughly $580m.

Mr Oakley was unusually explicit in his letter to the magazine published this week. The executive and legislative branches were agreed that "the definition of possesion....applies to components of a nuclear device, not only to an assembled device".

The new Pakistani government has pledged to make the country self-reliant and to resist compromise, and the nuclear weapons row has strained relations between Washington and Islamabad. India also argues that its nuclear programme is peaceful.

African Bank seeks donors as hard times close in

Some believe replenishment of funds for soft loans should be kept to 50%, reports Tony Hawkins

THE Gulf crisis and the prospect of world recession in 1991 provide a bleak backdrop to current negotiations over donor contributions to the African Development Bank's soft loan window, the African Development Fund.

If oil prices remain above $25 a barrel into the second half of 1991, the continent's foreign trade will move into surplus for the first time since 1985. But because oil gains are concentrated in a handful of countries – the North African producers, Angola, Gabon, Nigeria, Cameroon and Congo – at least 40 states, many of them already in dire economic straits, will be worse off.

Most will be hit hard by higher oil prices and weaker demand for their commodity exports; many face higher interest charges on their foreign debt, while private foreign investment and net aid inflows will stagnate, if not decline.

Whether this gloomy scenario has encouraged donors to loosen their purse strings in their talks with ADB officials will become clear by the end of the year. The bank is hoping that donors will agree to a 75 per cent top-up in the sixth replenishment of ADF resources, which would mean an injection of $4.75bn to its concessional lending over the next three years.

It is easy to make the case for greater generosity, since not only is the ADB by far the brightest star among Africa's multilateral institutions – which may not mean much – but it has set itself a set of goals with which few donors can argue.

The bank's president, Mr Babacar Ndiaye, identified five corporate goals for the institution: easing the debt burden, boosting intra-African trade (less than 5 per cent of the region's total trade), private sector promotion, encouraging increased participation of women in development, and halting environmental degradation.

To this list, a sixth goal was added in May this year when Mr Ndiaye, picking up a theme from the 1989 World Bank report on sub-Saharan Africa, called for economic integration – in a continent where economic co-operation has a dismal record – as a priority for the 1990s.

Indeed, Mr Ndiaye, with an eye on political change in southern Africa opened a debate that few seem anxious to pursue – that of preparing for the day when South Africa becomes the ADB's 52nd member. He is also anxious to end the somewhat artificial division, commonplace in World Bank and IMF analyses, between the sub-Saharan region and North Africa.

In the last three years, the African Development Bank group has lent an average of $2.4bn (£1.22bn) a year. Roughly two-thirds of this represents its non-concessional lending with interest rates of 7.4 per cent on 12- to 20-year loans. ADF credits have more than doubled in the last five years reaching almost $1bn in 1989. Its loans carry interest of only 0.75 per cent annually on the disbursed amount and are usually repayable over 50 years with a 10-year grace period.

Since the fund's establishment in 1974, agriculture has been the chief beneficiary of its activities, absorbing 36 per cent of disbursements, followed by transport with 21 per cent and public utilities with 17 per cent.

Powerful though the case is for a 75 per cent replenishment of the fund, some donors are determined to keep the replenishment to a maximum of 50 per cent or even less.

While accepting that Africa needs more resources, they argue that the bank group should consolidate. They see the five-fold growth in loan approvals during the 1980s – up to $2.9bn last year – as evidence that the ADB is trying to do too much too quickly. While disbursements have grown even faster – up seven-fold since 1980 to $1.5bn in 1989 – less than half ($6.8bn) of the total loan portfolio of $15.6bn had been disbursed by the end of last year, raising doubts about the absorptive capacity of recipients.

Donors are on weaker ground in criticising the ADB for "goal proliferation" – trying to implement divergent policies over too broad a front. In fact, Mr Ndiaye's key objectives – boosting regional trade, creating viable economic unions, promoting private enterprise – are closely integrated, while women in development and the environment are objectives close to the heart of big donors.

Despite this, there is, inevitably, greater agreement on broad goals than on how to get there, and on how much aid will be needed. This is the absorptive capacity argument once again, but in a different guise.

As one donor puts it: "We worry about lending into a vacuum – supporting projects that are worthwhile in their own right but which come short because the infrastructure simply isn't there."

Infrastructural inadequacy takes many forms in Africa – impassable roads, obsolete telecommunication systems, an acute scarcity of skills, especially at technical and managerial level and, above all, a tiny, fragile private enterprise sector.

If the past is any guide, getting the donors to pledge the replenishment funds may turn out to be the least of the ADB's problems. Making the funds work will be much more difficult.

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AMERICAN NEWS

Fall in US home starts greater than forecast

By Michael Prowse in Washington

US HOUSING starts fell more sharply than expected in October, adding to fears that the US economy is moving rapidly into recession.

After seasonal adjustment, starts fell 6 per cent to 1.04m units, the lowest level since June 1982.

The fall followed a revised 2¼ per cent decline in September. Analysts had been expecting starts of about 1.08m last month.

Officials said housing starts had fallen for nine successive months – the longest stretch of poor figures in the index's 31-year history.

The index is 27 per cent down compared with October 1989. Building permits, the best indicator of future construction activity, also fell sharply last month, to 925,000. This is the lowest level since mid-1982.

Permits have fallen nearly a third in the past year.

A housing recession is well established along the north-east coast of the US and in parts of the south. But yesterday's figures indicate the west coast may also be in trouble; starts fell 17 per cent to 266,000 in the region, which is dominated by California. This compares with 397,000 in October 1989.

The Midwest remains the most buoyant region, although even here starts fell 2½ per cent last month.

After months of weakness, starts rose in the depressed north-east. But officials dismissed this as a statistical aberration reflecting the drawing down of old housing permits.

Buildings with five or more family units remain the weakest part of the housing market. Such starts fell 25.7 per cent last month to 156,000 – the lowest level since this sub-index was created in 1963. A healthy level of starts for multi-family units, which were adversely affected by the 1986 tax reforms, would be about 500,000 a month.

Before yesterday's figures, some economists had argued the housing market might soon hit bottom. Expectations are now likely to be revised down.

October's figures suggest the bottom in this cycle may turn out to be closer to the low of 843,000 starts reached in January 1982.

Dominican Republic strike in second day

By Canute James in Kingston

HEAVILY armed soldiers and police patrolled deserted streets in the main cities of the Dominican Republic yesterday, the second day of a general strike called by unions and supported by opposition parties.

One group of unions is calling for economic changes to end shortages of food, electricity and petrol, while another, supported by the main opposition party, wants the resignation of Mr Joaquin Balaguer, president of the Caribbean state of 7m people.

Two bombs exploded in Santo Domingo, the capital, on Monday, and local radio said four people were injured. In an apparently vain attempt to blunt the effectiveness of the strike, the police arrested over 200 union leaders and strike organisers over the weekend.

Mr Balaguer, who started a sixth, non-consecutive term in August after a closely contested election in March, said on Sunday that he was willing to call a new election in 1992, two years before a vote is constitutionally due.

He described this week's general strike, the second since August, as "subversive". Fourteen people were killed in the August strike and more than 50 injured. The country's economy has been suffering from a shortage of hard currency for the past three years, and has been unable to meet all its debt service obligations and import requirements.

The peso has been devalued by 35 per cent this year and the price of basic imports has increased. Local bankers say inflation is running at about 100 per cent.

Among those advocating Mr Balaguer's resignation is Mr Juan Bosch, who alleges that his narrow loss to the president in the elections was a result of fraud.

It is the second strike since August, when protests left at least 14 people dead and 60 wounded in clashes with security forces.

The unrest began after the government imposed measures recommended by the International Monetary Fund that ended subsidies on many items, including food staples.

Fujimori enjoys unenviable task

Peru shows signs of responding to shake-up, writes Sally Bowen

PERU'S President Alberto Fujimori confessed over breakfast: "I'm enjoying every moment of life in politics." He admitted he had survived one potential coup d'etat attempt but assured his guests, "I am not afraid for my life – or for my ideas."

The 52-year-old agricultural engineer and former university rector, who emerged from nowhere to defeat novelist and favourite Mario Vargas Llosa for the presidency, stepped into one of the world's least enviable jobs. He inherited a country torn by terrorism where nothing worked, bar the cocaine trade.

Since coming to office almost four months ago, the new president has launched several bold campaigns in areas ranging from a national family planning initiative to penal reform, a comprehensive anti-drugs strategy based on crop substitution to attacks on monopolies and oligopolies.

Peru is by no means out of the economic woods. But international teams, bearing technical advice and making ready project proposals, have been flooding into Lima in advance of full normalisation of financial relations. Mr Martin Hardy, head of the 25-strong International Monetary Fund technical mission advising on Peru's programme, pronounced himself "surprised at the progress" made.

The central feature of Peruvian economic policy, co-ordinated by the energetic Juan Carlos Hurtado Miller, premier and economy minister, has been monetary and fiscal control. Inflation has been pulled back from 13.8 per cent for September to 9.6 per cent in October. The government's annual fiscal deficit, bordering on 8 per cent of gross domestic product by the end of the Alan Garcia regime, has been cut to zero. Tax collections have risen from under 4 per cent of GDP to around 8 – and next year's

Fujimori: bold campaigns have won international applause

goal of 12 per cent already has IMF blessing.

Other swift reforms have included a new tariff structure, opening Peru to a wider range of cheaper imports, an anti-monopoly decree and the start of a long-awaited overhaul of Peru's inefficient and costly ports and customs services. Sweeping changes in the basic tax structure and a privatisation plan for selected state enterprises are in the pipeline.

Some corrective economic measures were taken earlier this month, including suppression of the temporary 10 per cent surcharge on top of import tariffs for the higher two brackets (goods subject to 25 and 50 per cent).

This, it is hoped, will boost demand for imports and reduce the current trade imbalance, which has allowed Peru to build net international reserves from a negative balance of $100m (£51m) when Mr Fujimori took over to $600m by the end of last month.

While this is reassuring, continued central reserve bank purchases of dollars to prevent the overvalued inti from strengthening further and harming already beleaguered exporters, are aggravating inflationary pressures.

Peruvians are having to become accustomed to a very different presidential style. Unlike his predecessors, Mr Fujimori is no orator. He can make the most daring initiative sound cautious. But his "oriental" caution and courtesy have produced more positive responses from wary international organisations and equally dubious US anti-drugs officials than former President Garcia's dramatic thunderings.

Only occasionally does he let fly. Slothful congressmen have found themselves at the receiving end of his sometimes acerbic tongue. Judges have been in his sights since his inaugural address when he dubbed the seat of the Peruvian judiciary "the palace of injustice".

Constitutionalists were angered by a supreme decree, described as autocratic, which will resurrect an ancient presidential right to pardon those imprisoned for long periods without trial. Judges were enraged when, in a rare demagogic speech at one of Lima's crowded and dangerous prisons, he called judges "jackals and scum".

Mr Fujimori's current target is Peru's powerful Roman Catholic church. With United Nations funding of $1.2m Mr Fujimori has launched a family planning campaign, defending the right of the poor to enjoy what most middle- and upper-class Peruvians take for granted. He called opposition churchmen "medieval and recalcitrant".

Already, free contraceptives and advice are being handed out. In his hundred-days address an undaunted Mr Fujimori reiterated that his government "will not see the country populated by starving children, eating rubbish and often turning to prostitution in order to survive".

In both of these initiatives, Mr Fujimori shows the same sureness of touch with the common people as he showed in his electoral campaign. A poll in Lima last week showed 83 per cent of Peruvians supported the government's family planning campaign. And Mr Fujimori's personal popularity, though lower at the same stage of his administration than that of either presidents Fernando Belaunde or Garcia before him, is unwavering at around 57 per cent.

Mr Fujimori needs to nurture that common touch. He is unprecedentedly alone in a country with only 10 years of democratic tradition. He has no solid class base, far less a unified party behind him. The fragmented Congress, more concerned in the lower house with jockeying for temporary political advantages and alliances, has hardly begun to legislate.

The backing afforded Mr Fujimori by the Peruvian army and his reciprocity in strengthening its law-and-order powers have increasingly led to charges of militarisation. But the president replies: "What do you want? A continuation of chaos and disorder or a government that really governs and defends order?" So far, the answer seems clear.

Fresh IMF aid over Gulf crisis to apply until end of next year

By Peter Riddell, US Editor

THE NEW emergency relief being offered by the International Monetary Fund (IMF) to assist countries hit by higher oil prices and the Gulf crisis will apply until the end of next year.

The IMF is to make available additional funds "relatively quickly." Among the main beneficiaries will be countries in Latin America, Asia and eastern Europe, particularly affected by the higher oil prices and by the loss of remittances from workers in Iraq.

The new commitment, of an unspecified total value, is separate from the assistance for the front line states – Egypt, Turkey and Jordan – being organised by the US Treasury, and to which Japan, the European Community and Arab states have contributed. The three front line states will also be helped by the expanded IMF assistance.

The IMF executive board has decided to expand and change the phasing of existing borrowing facilities rather than creating the special new oil facility, as occurred after the two oil price shocks of 1973-74 and 1979-80.

The Fund said that "the overall situation is manageable through the use and adaptation of existing instruments available to the IMF."

This is because, unlike the two previous oil shocks, many more countries now have programmes in place with the IMF.

Moreover, the Fund believes that the provision of additional finance should be linked to existing programmes involving improvements in economic performance.

In particular, the executive board of the IMF has decided to suspend until the end of next year the present annual, three year and cumulative borrowing limits for its standby facilities.

These are, respectively, a maximum of 90, 270 and 400 per cent of member quotas or subscriptions.

But the overall upper limit of 110, 330 and 440 per cent for its extended lending arrangements respectively will be retained.

Until now the IMF has not been able specifically to compensate for economic shocks caused by sharp increases in the price of oil imports. The executive board has now agreed to introduce until the end of 1991 an oil import element into the compensatory and contingency financing facility to cover excess costs of imports of crude petroleum, petroleum products and natural gas.

Access under this oil import addition will be up to 82 per cent of quota, with 65 per cent of the total being available immediately upon approval by the Fund board.

The IMF has also decided to extend the coverage of compensatory financing. Until now only workers' remittances and travel receipts could be included in the calculation of export shortfalls, but from now on losses resulting from shortfalls on receipts from pipelines, canals, shipping, transport, construction and insurance will also be included.

In adopting these changes, the IMF stresses that the basic principle of balance of payments need still applies, as linked to the strengths of the adjustment or reform programme and capacity to repay.

The Fund stressed the need for "bold and comprehensive growth oriented structural adjustment programmes that would reinforce member countries' capacity to react to such unexpected shocks.

US accountancy firm seeks Chapter 11 protection

LAVENTHOL & Horwath, the troubled US accountancy firm which once counted Donald Trump, TWA and Hyatt Corporation as clients, will file today for protection from its creditors under Chapter 11 of the Bankruptcy Code in the New York courts, Nikki Tait writes from New York.

The firm had grown to rank seventh in US through a series of acquisitions over the past six years.

Laventhol said that it had made arrangements for its partners to acquire the rights to provide a service for clients, but was unable to supply further details on how such handovers might be effected. Some initiatives were apparently being taken by local offices, however.

Partners at the firm's Ohio office said they planned to form a successor entity which would continue servicing customers and were contacting clients about this. The Ohio offices were one of the largest of Laventhol's 50 regional operations.

Laventhol declined to give full details of its financial position, but said that its bank debts currently stood at about $85m. Liabilities, including contingent liabilities, "far exceed" assets, it said.

WORLD TRADE NEWS

US and EC force Japan to delay hi-tech plans

By Stefan Wagstyl in Tokyo

THE US and EC have forced Japan to delay and dilute proposals for a $1bn (£500m) multinational collaborative research programme into Intelligent Manufacturing Systems, or computer-integrated factory automation.

Arguments over the scheme highlight tensions over hightechn trade and intellectual property rights and especially, US and European fears that Japanese companies would be the main beneficiaries of a Japanese-led collaborative research project. In Tokyo yesterday, the three trade partners signalled agreement in principle to a joint research project. Countries grouped in the European Free Trade Area – Australia and Canada – attending as observers, indicated they would participate.

The partners expect to start a feasibility study early next year, taking a year to complete. It will cover funding, choice of research areas, and intellectual property rights. The research would be carried out at the pre-competitive stage of development by participating government institutes and companies.

Agreement on a feasibility study, itself yet to be formally adopted, is a far cry from a scheme put forward earlier this year by Japan's Ministry for International Trade and Industry (Miti). Miti proposed joint development of factory automation systems already in operation around the world into a system based on common standards. Miti hoped to marry Japanese skills in hardware with US software "know-how" and European expertise in precision equipment.

But companies and government officials in the US and the EC feared Miti's proposals would result in a one-way flow of technology from the West into Japan. They were concerned about the dominant role Miti envisaged for an IMS Promotion Centre it founded in Tokyo in April. Reaction in Washington and Brussels was hostile, though it won support from US companies including United Technologies and Rockwell International.

The EC and US rejected Miti's proposals in May, in favour of working towards a multinational scheme with shared leadership and funding. Japan agreed for fear of provoking trade frictions.

The result is the scheme discussed yesterday in which the emphasis is on collaboration, including decentralisation of research. The work of the project's secretariat will be shared by the EC Commission, the US Commerce Department, and Miti.

Italtel in Soviet telecoms venture

ITALTEL, the Italian state-controlled telecommunications maker, yesterday gained a significant foothold in the Soviet market with a joint venture deal to produce its Linea U2 Digital switching system in Leningrad, Quentin Peel reports from Moscow.

The agreement signed by Italtel, in which AT&T of the US has a 20 per cent stake, and Krasnaya Zarya (Red Dawn), the largest Soviet telecommunications maker, provides for eventual annual production of 1.5m lines from its computerised exchanges.

Italtel, a subsidiary of IRI, will have 40 per cent of the initial share capital, investing some Ecu23.5m (£16.7m), with a second contribution to basic capital of Ecu35m after 10 years. Krasnaya Zarya's 60 per cent stake is in the form of the infrastructure and some production equipment. Production is supposed to begin in Leningrad, and in a second plant in Abkhazia, Georgia, in 1992. Output will build up to full capacity in five years.

Mr Salvatore Randi, chief executive of Italtel, said there would be no exports and so no hard currency earnings, over the first five years. Hard currency expenses for the first 10 years will be covered by "international loans with the interest paid by the Italian government".

It was intended to start producing hard-currency profit from the eighth year of manufacture - year 2000 - as a result of selling the equipment to western Europe. The Soviet plan for overhauling its telecommunications system requires production of 6m lines a year by 1996, giving the Telezarya joint venture some 25 per cent of the market.

The Ministry of Communications, which controls Krasnaya Zarya, has signed agreements for exchanges with both Siemens of Germany and Bell Telephone, part of Alcatel, for its System 12. At present, the Soviet telephone system has 33m phone lines installed, but it is intended to reach 100m lines by the year 2000, of which 60 per cent will use digital technology.

The present Soviet system is almost entirely based on mechanical switching, and is overloaded.

Gucci misses out as tension rises in Seoul

John Ridding on why South Koreans find market liberalisation hard to stomach

MERCURY Sable is back in car showrooms in downtown Seoul.

Like other foreign products, from Gucci clothes to Burberry raincoats, the American car had been removed during a public campaign early in the summer against "luxury imports".

But while the Sable and some of the other foreign products are back on display, trade relations are not back on track.

A series of new disputes, the nearing conclusion of negotiations in the Uruguay Round of the General Agreement on Tariffs and Trade, and emotional coverage of the issues in the Korean media, have raised new tensions and threaten a further deterioration in trading links.

Over the last two weeks, senior US officials visiting Seoul have expressed dissatisfaction at the pace of market liberalisation and reforms.

Last weekend, the National Council of Consumer Protection Organisations, a coalition of 10 Korean consumer groups, threatened to launch a nationwide boycott of US goods unless Washington apologised for its demands.

At the root of trading partners' concerns is a feeling that the substantial progress made since the difficult years of 1987 and 1988 is being undermined. "US-Korean trade relations were in very good shape last year, following the agreements we had in spring 1989. There was a good feeling about how things were going," says a senior US official in Seoul. "But then things started to sour again."

He cites the anti-import campaign, problems in implementing agreements and the decision to delay by one year a tariff reduction plan, as marking a change in direction, away from liberalisation, by the Korean government.

"Now Korea is playing a much more limiting role in the Uruguay Round, adopting, you might say, a minimalist approach to market opening."

The disputes fall into several areas. In agriculture, the government is seeking to appease the anger of local farmers who feel threatened by the impact of liberalistion on their highly protected and inefficient industry. As a result, it has decided to exclude 15 items, including rice and barley, from liberalisation measures to be discussed during the Gatt talks in Geneva.

With respect to the opening of Korea's highly regulated capital markets, trading partners have expressed concern at the slow pace of reform and are demanding an end to discriminatory treatment of their financial institutions.

Earlier this month, Mr Charles Dallara, the assistant US treasury secretary for international affairs, expressed disappointment with the results of negotiations in Seoul, warned that "the frustration level in Washington is high," and said that the passage of the Riegle Bill, which provides for retaliatory action in the financial sector, was now more likely.

Broader concern surrounds the various public campaigns against "excessive consumption". Korean officials and consumer groups argue that restraint and austerity are necessary at the moment, citing the slowdown in the economy and fears that conspicuous spending will exacerbate social tensions.

"We have nothing against promoting austerity," responds an official at a European embassy, "but there has been a definite tinge of anti-imports in these public campaigns, and the Korean government has been very slow in correcting this." While the Sable is back on show, sales remain much lower than earlier in the year, while some Burberry and Gucci outlets remain closed.

In the last few days, the Korean government has attempted to ease the problem. In meetings with Mr Richard Solomon, US assistant secretary of state for east Asian and Pacific affairs, Mr Lee Seung Yun, South Korea's minister for economic planning, sought to assure Korea's largest trading partner that the austerity campaign was a private initiative and not aimed against imports.

In the case of financial and agricultural market liberalisation too, Korean officials are clearly anxious about the rise in tensions.

"We are very worried about the prospect that the US might enact the Riegle law," says Mr Oum Bongsung, counsellor to the minister of finance.

He argues that much of the problem arises from a lack of understanding. "The US sounded like evangelists," he says, referring to their arguments in favour of financial reforms. "But we have many distortions in our markets and have to proceed gradually to maintain the balance between stability and efficiency".

At the same time, the Korean government emphasises the progress made by foreign products in the domestic market. It points to the rapid increase in imports, which have climbed from $50.38bn (£25.7bn) between January and October 1989 to $55.83bn during the same period this year.

It also argues that current economic problems justify a cautious approach to liberalisation. "The current account will be about $2bn in deficit this year, compared with a surplus of $14bn in 1988," says a member of the economics team in the presidential office. "That is a huge adjustment for an economy of our size."

"We do understand that it has been a turbulent period here and that their confidence has perhaps been shaken," says Mr Dallara. But he argues that the economy remains one of the fastest growing in the world and that Korea's concerns have to be put into perspective.

More fundamentally, trading partners argue that there has been little attempt to explain the advantages of market liberalisation. "The government needs to advertise that this will mean lower costs to consumers and not just involve difficulties for certain interest groups," says one diplomat. "They should point out that open international markets are what lie behind Korea's remarkable success."

But despite their differences, trading partners remain fairly optimistic. "I see what is going on at the moment as a hiccup," says one European diplomat. A US counterpart agrees that "most of these issues are quite resolvable."

For the moment, perhaps the greatest problem is the emotion which quickly becomes involved. Over the past few days Korean newspapers have decried what one described as "indiscriminate meddling in domestic affairs," while the principal opposition party has warned of an increase in anti-Americanism.

A deeper problem is that Korean popular sentiment is easy to tap. "Korea is not yet internationalised," says one senior Korean economic official. "Market opening is a new experience and the instinct is to resist."

Hawke offers Moscow export credit for Australian goods

MR BOB HAWKE, Australia's prime minister, has written to Moscow offering a A$500m (£196.8m) export credit for purchases of Australian commodities, Canberra said yesterday, Kevin Brown reports from Sydney.

Mr Hawke's letter follows proposals which were floated earlier this year by Mr John Kerin, primary industries minister, to use credits to encourage the Soviet Union to return to the market for Australian farm produce.

Mr Kerin, on his way to Moscow with executives from the Australian wool industry, will tell the Soviet Government that the only condition is that it must first repay debts of A$84m.

The Soviet Union was the second biggest market for Australian wool until May, when the trade was suspended after Novoexport, the Soviet import agency, said it was unable to pay for wool previously shipped.

The Australian government said the Export Finance Insurance Corporation would provide 100 per cent cover for purchases of up to A$400m-worth of wool and meat, and 80 per cent cover for up to A$100m-worth of wheat.

Both sets of credits would be on a 240-day roll-over basis, it added.

Soviets and South Korea discuss natural gas project

By John Ridding in Seoul

A NATURAL gas pipeline from the Soviet Union to South Korea, across North Korea, could be built over the next few years, according to the head of one of Korea's largest business groups.

Mr Chung Ju Yung, founder and honorary chairman of the Hyundai Group, said on returning from a visit to Moscow that the Soviet Union had expressed support for the project and that North Korea would not oppose the construction of the pipeline needed to carry the gas.

Pyongyang's position on the pipeline was reportedly conveyed to Moscow during a meeting between the North Korean ambassador to the Soviet Union and the president of the Soviet national gas corporation.

Hyundai said that the proposal was still at a preliminary stage and that no details about the project had yet been concluded.

Hyundai added that the project would be discussed during a visit to Seoul later this month by the vice-chairman of the Soviet Union government's energy bureau.

Under the terms of the basic proposals, however, the project would involve the construction of a 1,000km pipeline from Vladivostok to South Korea.

The aim of the exercise is to cut the costs of importing natural gas into South Korea.

The country has no natural gas supplies of its own.

The proposal reflects the sharp increase in trade and investment links between South Korea and the Soviet Union.

The two countries opened diplomatic relations earlier this year.

The planned project is also typical of Hyundai's moves to develop the natural resources of the eastern Soviet Union.

"In this respect we are different from the other South Korean companies," Hyundai said.

"They are looking to trade consumer products, whereas we have our eye on natural resources."

During his latest visit to the Soviet Union, Mr Chung signed a contract with the deputy premier of the Kalmyk republic to develop oil and natural gas near the Caspian Sea.

Hyundai has also agreed to provide technical and financial assistance to the Yakut republic in the development of its mineral resources and in the construction of a 320km railroad.

The largest project in which Hyundai is involved is the construction of a $3bn petrochemical plant in Siberia.

This project, which is a joint venture with a soviet partner and Combustion Engineering of the US, is currently under discussion.

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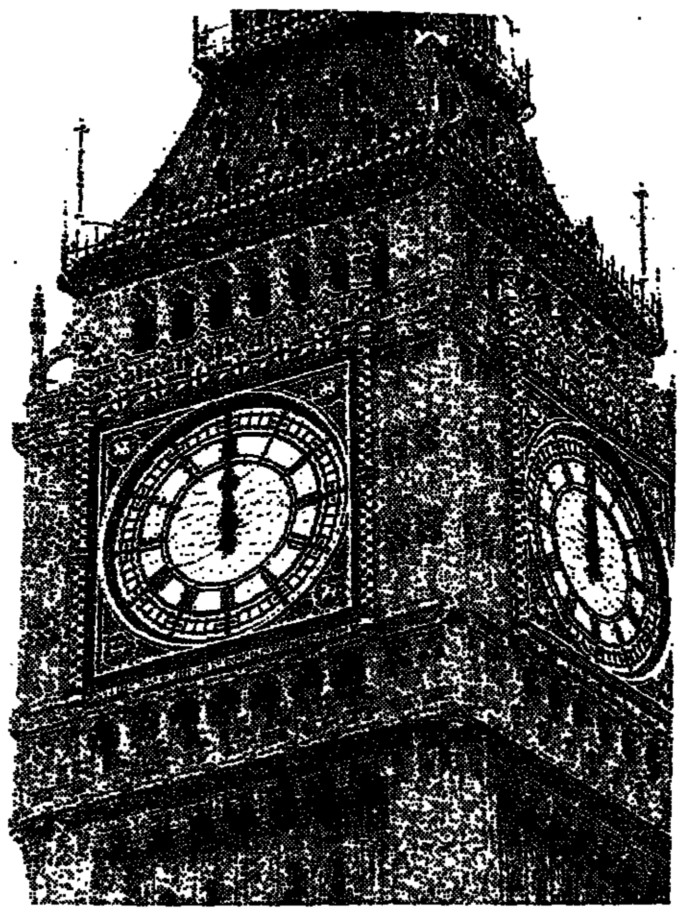


High noon at the Palace of Westminster

MPs see an end to Thatcherism in the second ballot

By Philip Stephens, Political Editor

IT WAS the death of Thatcherism: even if the Prime Minister defies the odds and wins the second round of voting then she will emerge defeated in victory. Before then, she will face pressure to withdraw from the race.

That was the sombre – and unhappy – judgement of her peers at Westminister last night.

Even before the result was announced the steady stream of Conservative MPs – loyal and dissident – who filed into Committee Room 12 of the House of Commons yesterday were agreed on one thing.

If Mr Michael Heseltine forced her to a second ballot, they judged, then Mrs Thatcher's grip on her party and her government would be broken. The Conservatives – the party of loyalty and unity – would have assassinated their most successful leader and prime minister this century.

She said last night that she would fight on. But even if she achieves the necessary simple majority over Mr Heseltine in a second ballot, many of her supporters believe she could not lead her party to anything but defeat in the next general election.

The already-rehearsed message she will be receiving today from the party's grandees is that she should now stand down in favour of one of her Cabinet colleagues.

If she asks – and she may not – Lord Whitelaw is ready to advise her to stand aside. So too is Mr George Younger, her campaign manager in the leadership contest. The other "men in grey suits", the executive officers of the 1922 committee and the party whips, would carry the same message to Downing Street this morning.

She has just a few hours to decide whether to reverse the decision that she announced on the steps of the British Embassy in Paris. Earlier, senior members of the party had tried, and failed, to persuade her to say something far more ambiguous.

Nominations for the second ballot close at noon tomorrow Mr John Major, the Chancellor, and Mr Douglas Hurd, the Foreign Secretary, are the most obvious candidates. But they cannot stand unless she withdraws.

Her colleagues believe that if she refuses, then the momentum established by Mr Heseltine may well sweep her arch-opponent to victory. The man she described earlier this week as a "corporatist" and "interventionist", the man she believes is a European federalist, would replace her in Downing Street.

He might well do anyway. Her own victory first-round win against Mr Edward Heath in 1975 made her unstoppable. But at least another candidate would offer a plausible alternative to the former defence minister.

If that assessment sounds overly-pessimistic, it was the one being offered from almost all sides of a bitterly-divided Conservative Party yesterday. Only the most ardent loyalists thought the Prime Minister could or should survive. The fixed expressions on their faces suggested even some of those had doubts.

Senior figures in the party were thinking the unthinkable before it happened.

In Paris, Mrs Thatcher's closest aides had drafted a statement for her to deliver from the British Embassy in the event of second ballot. While still leaving open the possibility of her withdrawal from the race, it suggested strongly that she would fight and fight to the last vote.

Back in at the Conservatives' headquarters in Smith Square, the perspective was different: her comments should be much more opaque; she should consult her senior colleagues before making any firm decision. She ignored the advice.

Many of those colleagues had also prepared contingency plans.

Over the past few days the telephone lines linking the homes of Cabinet colleagues have rarely stopped buzzing. Those who believe that they might have a claim to join the fray have been carefully soliciting the opinions of their peers. Last night the lines were jammed.

Both Mr Hurd and Mr Major wanted Mrs Thatcher to win. For all their own differences and difficulties with her over the past year, the two most senior members of her Government beleived her outright victory would be the best result.

They proposed and seconded her: they cannot enter the contest against her unless they resign from her Cabinet. Their friends and allies, however, have been busy testing the temperature of their own support at Westminister in case she was forced to step down.

Mr Major has emerged as the most likely candidate to challenge Mr Heseltine. Though only three years ago he was a political unknown, his meteoric rise over the past 18 months has made him Mrs Thatcher's most obvious heir-apparent.

An assiduous and skilful political operator, he has managed to retain support on both the right and the left at Westminister. Close colleagues believe that his views on Europe are much more akin to Mrs Thatcher's approach than is generally apparent. There has been intense speculation that Mr Norman Tebbit, the former party chairman and one of the standrad-bearers of the right, might endorse his candidacy.

From the left, Mr Major's awareness of the humble circumstances of his own upbringing is seen as evidence that he will deliver the more "caring" Conservatist that they beleive the 1990s demands.

He is no socialist when it comes to public spending or tax cuts, but neither is he an ideologue.

Mr Hurd is the favoured candidate of the Cabinet as a whole – and if he insisted on joining the contest he could probably persuade the 47-year old Mr Major to stand aside. There is a strong argument that the Foreign Secretary's experience and consensus style would offer a better hope of healing the deep divisions opened by yesterday's contest.

Many Tory MPs, however, are unconvinced that he has the popular appeal needed to restore the Government's tattered reputation with the electorate.

And if there was one single, simple, message from yesterday's leadership contest it is that the Tories at Westminister are being driven above all by their fear of losing the next general election.

Mr Heseltine scored 152 votes against a Prime Minister who had won three general elections because the opinion polls said that he was more likely than her to deliver a fourth.

But as they surveyed the wreckage last night, neither ministers nor Tory backbenchers were convinced that anyone could save them after the party's recent self-destruction.

THE CHALLENGE TO THATCHER

With a rush the news sweeps out from committee room 12

By Ivo Dawnay, Political Correspondent

When it finally came it was like the noise of an oncoming train. And though, perhaps on reflection, it only took a few seconds for the news to come out, for those straining to hear it seemed like an age in which a whole chapter in history hung in precarious balance between fact and fiction.

For as long as an hour, the gloomy committee room corridor had been filling to bursting, cramming tight with MPs journalists, secretaries and even foreign visitors, in unprecedented scenes of excitement and expectation.

Several times the hubbub fell silent as upwards of 250 pairs of ears strained from news from the crowded committee room where the result was being revealed to a tense electorate of Tory MPs. Mass eavesdropping in the mother of Parliaments, dispersed by bouts of laughter.

Then unexpectedly, there was a surge forward. Something was happening but what, where... ? Then, suddenly a few - just a few - fleet figures started tearing back through the crowd - racing for telephones and wire rooms, sprinting to get the news out of the stuffy corridor and into the cold fresh air of the waiting world.

"And the figures, the figures...what are the figures?"the seething mass begged in agony.

Then it started: first, slowly, like a whisper; then growing, growing like a grubby rumour transforming itself into awesome truth before the very eyes and ears of a clamorous, bowling hubbub.

"Two..Oh..four, one...five..."

" WHAT IS IT, WHAT IS IT?"implored the crowd as the stream of racing newsbearers now tore back like a flood through a hundred jostling notebooks.

"WHAT IS IT?"

And then, at last, words worked through the fog of figures into the mayhem. "A second ballot..its a second ballot. SECOND BALLOT." They flashed like an electric charge through the astonished crowd, registering first on the ears then crashing like a bomb on the conciousness.

Not a soul in that crowded corridor doubted for one fraction of a second that those two words carried a resounding historical ring. Gaping faces soundlessly tried them out for size, for credibility. Did they fit, could they be true.

"The figures, the figures...?" Still the agony was played out. Then miraculously suddenly they were there. 204, 152. At once everyone was scribbling on notebooks, on wrists, on old newspapers. Innumerate minds grappled with the equation.

One-five-two, plus fifty-seven - 209.

It was true - a second ballot. And almost as suddenly it was over. The enormous fact was born into a commonplace.

Already, dazed MPs were gathering in groups in the corridor passage all but ignored by the rapidly dispersing pack. "She will stand. Of course, she will stand,"said one rightwinger, his voice hoarse with disbelief.

"Hurd won't run. Major won't run. I'm sure of it." He too was incredulously testing his words.

Elsewhere, the cabals were already gathering again and more urgently than ever.

Alone. Standing on a bench a familiar figure, pipe in mouth and radio headphones firmly plugged in to both ears, looked beatifically on to the scattering mob.

"Mr Benn, Mr Benn. What do you think?" a journalist shouted.

"What were the figures?" the veteran left-winger asked. "Ah! so it is a second ballot, then."

Mr Benn spun out the agony with a slow smile. "Well,"he said. "All I can say is: how appropriate that she should be in Versailles when she heard the news."

But the Westminster mob had already gone.

THE ALTERNATIVE AGENDA

Heseltine offers different route for a fourth term

By John Mason

IF Mr Michael Heseltine's success in forcing a second ballot continues and he defeats Mrs Thatcher to become Prime Minister, the change in direction of policies of the ruling Conservative government will undoubtedly be major.

Since announcing his candidacy last week, the former Defence Secretary has outlined a manifesto to the public that would leave the work of few Whitehall departments untouched.

Mr Heseltine has strongly denied Mrs Thatcher's accusations that his agenda is effectively socialist and amounts to little more than a return to the failed corporatism of the 1960s and 70s.

It is, he has insisted, the only radical alternative to Thatcherism which, despite its achievements, has foundered on major issues such as Europe, industrial policy, education and training and the poll tax.

On Europe, Mr Heseltine differs from Mrs Thatcher both in style and substance. Convinced that Britain must play a committed, positive and leading role in the further integration of the European Community, he accepts the principle of a single currency.

However, he agrees with Mrs Thatcher over the dangers this would pose unless there is greater convergence between the strong and weak economies in the EC.

So while a Heseltine government would support moves towards the creation of a single currency and aim to play a prominent role in the process, it would not see the crucial

Heseltine: seeks new policy

decision being taken for some years ahead.

Likewise, although he supports the principle of political union, he has been careful to distance himself from the prospect of a rapidly-emerging federal "super–state", the fear of his Bruges Group opponents.

Such integration would be gradual, with national sovereignty not submerged by new European political institutions for the foreseeable future, he made clear during his campaigning last week.

If his stance on Europe has proved one vital ingredient of Mr Heseltine's success, his criticism of the poll tax has proved equally crucial in attracting the votes of Tory MPs concerned for at party's electoral prospects.

A long–standing opponent of the measure he dubbed a "granny tax", Mr Heseltine has promised an immediate and fundamental review of the new system of local government finance if he becomes Prime Minister.

He has promised to address the problem of making the poll tax more related to people's ability to pay, but has carefully made no firm commitment how this would be achieved.

He has, however, floated the idea of lowering bills by gradually transferring the costs of education from local to central government. Any reform would also be accompanied by a merging of district and county councils to form unitary authorities with American–style directly elected mayors.

On industrial policy, Mr Heseltine is committed to a style of interventionism designed to re–model the British economy along the lines of Japan and Germany.

While strongly emphasising the roles of the free market and the entrepreneur, he would seek a new partnership between government and industry aimed at reversing the long–standing decline in manufacturing.

This would involve an expanded Department of Trade and Industry backed with extra funding, a greater commitment to research and development and a substantial drive to address the shortcomings in Britain's education and training provision.

The conclusion of many of his supporters is, however, that the man who, in effect, launched his campaign more than four years ago with his stormy resignation from a cabinet meeting has made few wrong moves since.

Leader, Page 23

Ashley Ashwood

At the door of power: Margaret Thatcher in contemplative mood outside Number 10

MEPs see need for change in British policy towards Europe

By Lucy Kellaway in Strasbourg

UK POLICY on Europe will have to change, following Mrs Margaret Thatcher's failure to win the first ballot outright, MEPs said yesterday.

Mrs Thatcher has never had much time for the European Parliament, and MEPs' response to yesterday's results show that the feeling is mutual.

Despite efforts not too seem too gleeful at yesterday's vote, Tory MEPs nevertheless seemed well pleased – arguing that either Mrs Thatcher would go, or that if she stayed she would have to change her policies on Europe.

The leader of the Conservative group in the Parliament, Sir Christopher Prout, said that the pro-European majority in the cabinet would now be able to secure a change in policy.

"The vote shows a strong feeling that the British line on Europe must be changed," said Mr Derek Prag, conservative candidate for Hertfordshire.

"Thatcher must have received a message that a large number of people want a change – if not a change in leader then a change in tone," said Mrs Margaret Daly, Tory MEP for Somerset.

There was much grumbling among Tory MEPs yesterday that they had had no vote in the election. Indeed, earlier ballots amoung MEPs suggested that only two out of the 32 supported Mrs Thatcher, and that more than 20 would have been prepared to support Mr Heseltine.

However, there was little sign of a wholesale support for Mr Heseltine, among Tory MEPs, many of whom seemed to prefer the prospect of Mr Hurd as leader.

Neither did other MEPs seem to relish the idea of Mr Heseltine as leader. Mr Jean Pierre Cot, the leader of the socialist group said yesterday that it was "a matter of time before the sugar coating wears off and Mr Heseltine's policy looks identical to Thatcher's."

Most MEPs agreed that what was needed was a strong line on Europe, and that it would have to come before the intergovernmental conferences get underway next month.

Sterling and UK equities slide as uncertainty hits financial markets

By Peter Norman, Economics Correspondent

FINANCIAL markets reacted adversely to the indecisive outcome of yesterday's Conservative leadership election, with sterling dropping about 1 pfennig against the D-Mark and British shares being marked down in New York within minutes of the announcement.

"It's the worst possible result for the equity market," said Mr George Hodgson, equity strategist at Warburg Securities. "It's an old cliche that markets hate uncertainty, and we've got that for sure," he said.

Like other analysts, he said movements of sterling over the coming week would set the tone for other financial markets.

First reports said that among British blue chips, Reuters shares lost 15 pence and Glaxo were down 10 pence in New York after the news.

It remained unclear how strongly foreign investors would react to last night's news. The fact that British equities and the pound were steady to firm before the announcement suggested to many City economists that Mrs Thatcher's failure to see off Mr Heseltine's challenge in the first round of voting would come as an unpleasant surprise in foreign markets.

"The foreigners were so unprepared for this, there has to be a shock effect," said Mr Alan Davies, head of economics at Barclays Bank.

It was unclear whether the result will have long-term implications for the economy. Mr Giles Keating, chief economist in London at investment bank Credit Suisse First Boston, said it was too early to speculate on what Mr Heseltine might do if he finally became prime minister.

"You could argue that at the end of it all we will still have a Conservative government," Mr Davies of Barclays said. Referring to the recent vote of no confidence in French prime minister Mr Michel Rocard, he said: "After all, other countries have crises like this all the time, so may be it is not all that big a deal."

The declarations of Mrs Thatcher and Mr Heseltine that both would put their names forward for the second ballot were seen as greatly reducing the chances of a third candidate coming forward.

Deft campaign performance wins supporters for challenger

PASSIONATE advocates and fierce opponents of Mr Michael Heseltine's leadership challenge agreed in private yesterday that – regardless of the outcome – it has been a politically deft performance, writes Ivo Dawnay.

Many of the votes for the member for Henley, who stormed out of cabinet over the Westland helicopter affair, were won by the group of Conservative backbenchers who have supported him since his 1986 resignation.

Only for one moment did the years of constituency visits and hours of speeches seem likely to be squandered. That was when the former defence secretary wrote an open letter to his constituency chairman implicitly criticising Mrs Thatcher's European tactics.

Initially, it looked as if a bomb had blown up in his face. But the challenger turned even this to his advantage when the open split within his constituency served to emphasise the deep divisions within the Tory party over Mrs Thatcher's leadership.

Once the race was on, Mr Heseltine demonstrated a coolness under fire that many had doubted he possessed.

His pledge to review the poll tax – a prime anxiety of MPs in Tory marginals – was a seductive opening shot. So was his identification of a new pro-European mood among businessmen and the young. Nor could Mr Heseltine easily be charged with disloyalty.

While repeatedly emphasising Mrs Thatcher's achievements, he characterised her as the dominant "face of the Eighties".

The compliment implicitly suggested that she was not the flavour of the new decade and that a little less dominance and more collective cabinet responsibility was now desirable.

Smooth television and newspaper performances – hardly one outlet failed to get its "exclusive" interview – also served his cause by winning a large proportion of the country's voters to his cause.

Opinion polls last Sunday showing consistent evidence of the electoral advantages that his leadership would bring the party reinforced his earlier claims to be a winner.

Behind the scenes too, the Heseltine camp scored points. MPs reported that telephone lobbying was discreet but thorough. One MP pledged to Mrs Thatcher yesterday congratulated her rival on his approach.

"By comparison, the prime minister's campaign managers didn't even bother to get hold of me. It's quite incredible how lacklustre it has been," said Mr Dudley Fishburn, MP for Kensington and the former managing editor of The Economist magazine.

In spite of his strenuous efforts, Mr Heseltine suffered from two distinct disadvantages. He could never convincingly counter the arguments that it was disloyal to vote against a sitting prime minister with three historic election victories to her credit.

Nor did any big names rally publicly to his colours. Mr Heseltine's sponsors were the less-than-prominent Sir Peter Tapsell and Sir Neil Macfarlane.

Up to the last minute, there were rumours that Mr Peter Walker, the long-serving former cabinet minister, and Lord Carrington, the former foreign secretary who resigned over the Falklands invasion, might declare themselves for the Heseltine cause. In the end, he could boast only the endorsement of the controversial and less weighty Mrs Edwina Currie.

Last night Mr Heseltine's supporters could not disguise their glee. The result was better for them than they had dared hope. Mr Heseltine confirmed he would be standing again shortly after the result was announced.

"I'm overwhelmed with gratitude to my parliamentary colleagues who in such large measure have given me their support," he said

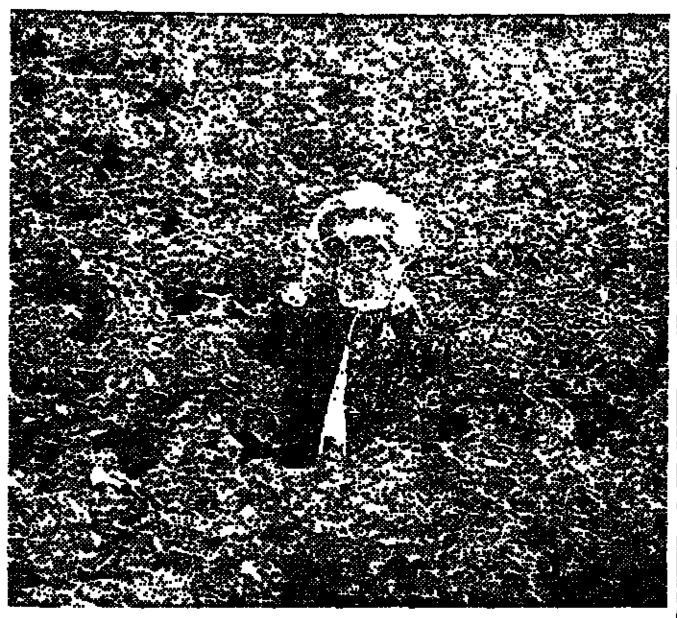
"I will therefore allow my name to go forward into the second round," he added, speaking in the doorway of his London home flanked by members of his family.

The result received a mixed reception among party activists in Mr Heseltine's Henley constituency last night underlying the divisions provoked locally by the leadership issue.

Mr Raymond Monbiot, the president of the Conservative Association, described Mrs Thatcher's failure to win outright in the first ballot as a "great pity," which would lead to "another week of uncertainty and turmoil" in the party.

Mr Peter Owen, the chairman of the local association, said he was "pleased" that Mr Heseltine had survived to fight in a second ballot.

Heseltine checking yesterday's coverage of the election



Mrs Thatcher (pictured above at an English farm) hoped to draw strength from an unchanging view of politics

Prime minister must draw on years in power

By Richard Evans and John Authers

THE Thatcher years started in February, 1975 when Mrs Thatcher, daughter of a grocer from Grantham became the first woman to lead the Conservative Party. Against expectations, she beat Mr Edward Heath in the first ballot by 130 votes to 119 and four other candidates in the second ballot.

In June, a referendum was held on whether Britain should stay in the European Community on terms to be renegotiated by the Labour government, or reject them and leave. The majority of Conservatives, including Mrs Thatcher and Mr Heath, campaigned successfully to stay in.

In March 1976 Mr Harold Wilson, the Labour prime minister, announced his unexpected resignation, and Mr James Callaghan fended off challenges from Mr Michael Foot and Mr Denis Healey to become Prime Minister.

Politics were tense, with the Labour majority shrinking to vanishing point, and opinion poll swinging to the Conservatives.

In 1977, Labour struggled on despite defeats on the bill devolving powers to Scotland and Wales, and entered negotiations with the Liberals. Mrs Thatcher denounced the pact as "shabby, devious manipulations."

The government's ability to govern continued to deteriorate during 1978 as Liberals became disenchanted with the Lib-Lab pact. There were further heavy defeats on devolution, and all the signs pointed to an October election. To general astonishment, Mr Callaghan decided to fight on into 1979, thus launching the "winter of discontent."

A devastating series of disputes, starting with road transport and petrol tanker drivers and extending throughout the public sector, left the economy crippled and the government's strategy of seeking union co-operation in ruins. Mrs Thatcher called for restrictions on the powers of the unions

The May 4 general election, primarily a battle between the avuncular, consoling Callaghan and the forceful Thatcher calling for a radical reversal of socialism, was a triumph for Thatcher. She became Britain's first woman prime minister with an overall Commons majority of 43.

Sir Geoffrey Howe, the new Chancellor of the Exchequer, cut the standard rate of income tax from 33p to 30p and top rate from 83p to 60p in his first budget; Lord Carrington, Foreign Secretary, forced through constitutional talks on Rhodesian independence.

Unemployment rose in 1980 above 2m for the first time since 1935, and the annual rate of pay rises exceeded 21 per cent. The Government singled out control of inflation as its main target.

Mr Nicholas Ridley, Minister of State at the Foreign Office, created a furore when he visited the Falklands and suggested sovereignty should be given to Argentina and leased back to Britain. Mr Mugabe was elected prime minister of Zimbabwe.

Race riots in Brixton in 1981 were followed by rioting in several cities, including London, Liverpool and Birmingham. It was a year of great political excitement, with the Conservative and Labour parties deeply divided, and a new party, the Social Democrats, launched with the object of "breaking the mould."

The argument over nuclear defence was at its height, with the government committed to Trident missiles and the deployment of Cruise in Europe, and Labour unilateralist and against both.

War in the south Atlantic dominated 1982. An illegal landing by Argentines on south Georgia was followed by the capture of the Falklands in early April. A large naval task force was despatched and armed conflict began on April 22. The Argentine cruiser Belgrano was torpedoed and sunk with large loss of life, and the Argentine forces surrendered on June 14.

Mrs Thatcher's popularity soared with the victory and aided by deep divisions in the Labour Party and a fall in support for the Liberal-Social Democrat Alliance.

Mrs Thatcher ordered the dissolution of Parliament in 1983, a year before she needed, to take advantage of Labour's weakness, and won an overwhelming victory on June 9, with a Commons majority of 144. She then sacked Mr Francis Pym, regarded as too wet, sent Mr William Whitelaw to the Lords, and replaced Sir Geoffrey Howe as Chancellor with Mr Nigel Lawson.

Mr Neil Kinnock took over as Labour leader from Mr Michael Foot, and Labour retained its unilateralist stance which had been regarded as a big vote loser.

Internationally, friction continued with the Argentine over the Falklands, and with the European Community over fisheries, agriculture policy and Britain's financial contribution.

The miners' strike dominated 1984. It developed into a battle of wills between Mrs Thatcher and Mr Ian MacGregor, chairman of the Coal Board on the one hand, and Mr Arthur Scargill, NUM president, on the other.

The Conservative party conference that year was overshadowed by the bombing by the IRA of the Grand Hotel in Brighton, where Mrs Thatcher and most of the Cabinet were staying. Five people were killed and dozens injured.

Privatisation was a growing theme of government, with proposals to sell a majority stake in British Telecom, and to separate Jaguar Cars from the state-owned BL.

The coal strike continued into 1985. It finally ended a few days short of one year after it began, and was widely regarded as a government victory of great significance.

Failure to reduce unemployment continued to worry many Conservatives, and Mrs Thatcher's popularity began to slip. The Westland affair, with Mr Heseltine advocating a European rather than US buyer for the troubled helicopter company, divided the Cabinet.

Westland developed into melodrama in January 1986 with the resignation of Mr Heseltine, as Defence Secretary. Mr Leon Brittan resigned soon afterwards as Trade and Industry Secretary over the same issue.

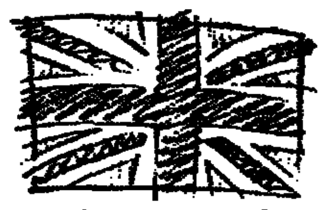
Unemployment continued above 3m but the rate of inflation was cut to below 3 per cent. Mrs Thatcher intensified her crusade against the state sector with the privatisation of British Gas and the sale of 1m council homes.

Thatcherism reached its high point in 1987, as all economic indicators seemed to move in the right direction at once. Mr Lawson shaved 2p off income tax to 28p in the budget, just before the election, and unemployment dipped below 3m.

"Yuppie" culture was at its zenith. A bull market surged on the Stock Exchange all year, until Black Monday, October 19, when the FTSE dropped 250 points, losing 10 per cent of its value, inflicted wounds on the City.

Mr Lawson's finest hour came in 1988 as he slashed income tax to only two rates - 25p and 40p in the pound. Labour MPs bayed in horror, while one tabloid dubbed him "Nigel the Taxslayer". Mrs Thatcher set out her philosophy on Europe in a speech in September, saying: "To try to suppress nationhood and concentrate power at the centre of a European conglomerate would be highly damaging."

BRITAIN IN BRIEF



Fall seen in UK money indicators

Further falls in indicators charting the amount of money in the UK economy have provided more evidence of the easing of inflationary pressures, raising hopes of an early cut in interest rates.

Latest figures on money supply and bank lending from the Bank of England are consistent with the picture which has emerged in the past fortnight of a serious slowdown in the economy, verging on a recession.

The figures will cheer Mr John Major, the chancellor, as providing evidence that his anti-inflationary policies are working.

However, they were accompanied by a signal by the Bank in its money-market operations that expectations by the City of an early decrease in the 14 per cent base rate may be premature.

Power share price to be 240p

The government will announce this morning that shares in the regional electricity companies are being sold at a common share price of 240p to give an average annualised dividend yield on flotation of 8.4 per cent.

That gives an initial combined market value for the 12 companies together of about £5.2bn. Mr John Wakeham, energy secretary, took the final decision on the price at 2pm yesterday afternoon.

Initially, about 34 per cent of the issue is being allocated to the public, 46 per cent to British institutions and 20 per cent to overseas investors. Strong demand would lift the proportion set aside for private investors to 55 per cent.

JWT wins £30m account

J. Walter Thompson, one of the UK's largest advertising agencies, has won a £30m account for Nuclear Electric, the state-owned nuclear power company.

Nuclear Electric, which operates nuclear power stations in England and Wales, plans to spend £10m a year on advertising over the next three years. JWT will prepare a corporate advertising campaign to create an identity for Nuclear Electric.

Patten backs global treaty

UK backing for a global treaty to protect threatened species was pledged last night by Mr Chris Patten, environment secretary.

Mr Patten warned in a speech to the Natural Environment Research Council that up to a third of all species might be extinct by the year 2025.

DoE safety head rejected

The Department of Energy's head of North Sea safety has been rejected for a new post which is to oversee offshore safety following recent official criticism of the department's performance.

The criticism was contained in the Cullen report into the Piper Alpha disaster published earlier this month.

The report recommended the transfer of all the responsibility for offshore safety from the Energy Department to the Health and Safety Executive.

Mr Tony Barrell, the HSE's director of technology, was appointed head of a new offshore safety division within the Energy Department.

Mr Jim Petrie, the department's current director of safety, was passed over for the post, although he will continue to work in the safety division, reporting to Mr Barrell.

Strategy urged for inner cities

Inner city areas are suffering because of government "obsession" with market forces, says a Royal Town Planning Institute report.

The report, the Caring for Cities survey, calls for new strategies to deal with urban revival which are agreed locally by residents, the private sector and the local authority.

Mr Robin Thompson, the institute's president, said the case studies showed just how constructive town planning can be.

He said: "We do not have a balanced approach at present because of the doctrinaire obsession with the primacy of market remedies.

Long-term jobless drops

Unemployment has risen every month since April, but the number out of work for a year or more is falling, according to employment secretary Michael Howard.

Long-term unemployment has fallen 6,000 to 508,000 in the three months to October

Michael Howard: latest figures 'encouraging'

to the lowest level for eight years, he announced.

"This further fall in long-term unemployment, while smaller than in previous quarters, is nevertheless welcome news," said Mr Howard. "Furthermore, it is encouraging to note that well over half of all those who become unemployed leave unemployment within three months."

Mr Howard noted that long-term unemployment was less than half the level of three years ago and the number of people without a job for a year or more had fallen by about 100,000 in the past year alone.

Expansion plan for Air UK

Air UK announced a big expansion programme involving new services, new aircraft, more jobs and a new uniform for its crews.

The airline will be taking delivery of at least four BAe 146 jets next year to be used when it begins a thrice-daily service to Aberdeen, Scotland and a daily service to Nice, France, both from Gatwick.

Air UK is also increasing the number of its Stansted flights to Glasgow, Edinburgh, Guernsey and Jersey.

BR faces rail crash charges

British Rail is to face prosecution over the Clapham rail crash in which 35 people died and nearly 500 were injured two years ago.

Charges centre on signal defects which were heavily criticised by an inquiry into the disaster conducted by Mr Justice Hidden. There are to be no prosecutions of individuals.

BR is to be prosecuted under the Health and Safety at Work Act.

هكذا من الاصل

BUSINESS AND THE ENVIRONMENT

Unions to hoist the green flag

WHEN German trade unionists mounted a campaign for a reduction in working hours they chose as their symbol a smiling sun. When their British counterparts in the engineering industry embarked on a similar exercise, they adopted a clock.

The difference illustrates the lack of imagination British trade unions have shown and their failure to broaden their appeal at the same time as pursuing narrow objectives.

The question now is whether environmental issues could provide a fresh opportunity for trade unions to attract the new groups they badly need to lift their falling membership figures. These groups include the increasing number of women in the workforce, as well as young people and those employees in the expanding new technology and service sectors.

The first tentative steps are being taken to face some of the conflicts of interest that exist for trade unionists concerned about environmental issues but anxious, at the same time, to protect jobs. These conflicts are particularly apparent in, for example, the energy, motor, chemicals and packaging sectors.

A policy document on the environment, which has met with the approval of groups like Friends of the Earth, was adopted at this year's Trades Union Congress conference. From that report has sprung the notion of "green shop stewards" and union participation in companies' environmental audits.

The GMB general union, led by John Edmonds, who chairs the TUC's environment committee, has decided next year to target employers on green issues in the same way that the engineering unions picked off companies in their quest for a shorter working week.

The symbol for the campaign has yet to be fixed but, if it is to achieve one of its likely objectives of forging new alliances and widening the union's membership base, every effort will be made to avoid even a hint of a green spanner.

Diane Summers

Steven Butler describes the predicament facing oil companies in cleaning up their refining processes

Dragged down by the anchor

Shell UK Oil's refinery at Shell Haven, east of London on the Thames estuary, is not a pretty sight. It is a sprawling complex of silvery pipelines and refining vessels surrounded by a tangled spaghetti of pipes and valves. The vessels and pipelines are interspersed with scrubby grassland, catchment drainage ditches and a "farm", as it is called, of large tanks that hold crude oil and refined products.

At the tail end of the refinery is a skimming operation which removes oil floating atop the tonnes of murky cooling water that Shell Haven draws daily from the estuary before spitting it back out again. A gentle aroma of oil infuses the area.

David Pearce, manager of the refinery, does not have to make Shell Haven look pretty (an impossible task) but he does have to make it clean and smell sweet. That is not easy, and it promises to be expensive in the years ahead, painfully so for a business that has made money only occasionally in the past 10 years.

"People do engage in this perverse behaviour of investing in a business that does not earn a profit," says Pearce. Oil companies have been at it for years, although most hope eventually the investments will come good.

Oil refining, besides being ugly and unprofitable, is a veritable bundle of environmental hazards. Keeping liquid and gas hydrocarbons from escaping into the environment is arduous enough. Only last month a tanker loading heavy fuel oil at Mobil's Coryton refinery, just a stone's throw downstream from Shell Haven, spilt 50 tonnes into the water. Cleaning oil from water before discharging into rivers and the sea, or controlling smoke going up flue stacks into the atmosphere, is hardly much easier.

Standards, particularly in the EC, for all these emissions are set to rise steeply in the years ahead. Meeting them will take hundreds of millions of pounds for each refinery just to stay in business, and the investment is unlikely to earn any financial return. In addition, the risk of becoming uncompetitive by choosing the wrong technology and significantly exceeding or falling short of standards is great because the standards themselves are changing.

While Britain's oil companies nervously await final government decisions on how they are to cut sulphur and nitrogen oxide emissions in the years ahead, they are locked into debate among themselves over the advisability of acceding to the latest recommendations on oil discharged into water by the Paris Commission, an organisation of European countries whose wastes affect the North East Atlantic ocean. To date only Britain still rejects the commission's move to limit oil discharged into water to three grams per tonne of oil processed.

Reflecting the view of most British oil companies, Reg Clay, manager of Esso's Fawley refinery, says: "The standards which need to apply to a coastal refinery like Fawley ought to be different from a refinery on the Rhine."

Clay, who manages Britain's largest refinery overlooking the recreational boating area of Southampton Water, argues that the sea is able to absorb small amounts of oil with no measurable environmental impact, while fresh water is far more sensitive. But Pearce at Shell Haven says: "We just accept the Paris Commission recommendation as something we will comply with."

Oil in water at the refinery comes from two sources. First, oil arrives at the refinery with an average water content of about ¼ of a per cent. Salt is also removed from oil by dissolving it in water. As this water is separated out, it inevitably retains traces of oil. Second, in older refineries, meaning every refinery in Europe, "once through" water is used to cool refining vessels. While in theory the water is completely separate from the oil, in practice small leaks in old refinery units are almost impossible to prevent.

Clay says that Fawley last year discharged 3.2 parts of oil per million parts water, compared with a government-imposed standard of 5ppm. Yet even this is much greater than the amount proposed by the Paris Commission.

"Our first option is to go for maximum security of leaks," says Pearce. Beyond that, however, "the only way we could hope to comply [with Paris Commission standards] is not putting out any water at all, except that which is biologically treated."

Modern refining systems typically are air cooled or use closed-system recirculated cooling water. Older equipment could be retrofited with closed systems and oil-eating microbes sent to work on any water that does go out, but this is likely to lead to tens of millions of pounds in investment for each refinery. Besides, most oil companies believe that the return on investment in terms of environmental benefit would be negligible.

While the industry could comply with these sorts of regulations if necessary, there is a broader question raised: if society has limited resources with which to combat environmental degradation, would this be the best use of these resources? Even Shell, which offers the least resistance to the Paris Commission recommendations, does not argue that it is.

The removal of sulphur both from refinery exhausts and from fuels produced in refineries is more unambiguously worthwhile, although it is a far more expensive problem to address. Britain has agreed to comply with the European Commission's large combustion plant directive, under which sulphur dioxide emissions nationwide are to be cut to 60 per cent of the 1980 level by the year 2003. The government, however, is still working out how this would apply to standards for refineries.

The refineries have two choices on emissions – to remove sulphur from refinery fuels or to collect it as it goes up flue stacks. Either way the expense promises to run into hundreds of millions of pounds, although removal from fuels before combustion is likely to prove the preferred route.

Pearce says the removal of sulphur is closely linked with processes that could reduce carbon dioxide emissions as well. Modern refineries produce light refined products, such as petrol, from heavy fuels by splitting molecules and increasing the ratio of hydrogen to carbon atoms. This can be done either by removing carbon, through catalytic cracking, or by adding hydrogen, through hydrotreating – injecting hydrogen under pressure at a high temperature.

Removing carbon leads to the production of coke, which is then burned, thus producing CO2 and doing nothing to remove sulphur. Hydrotreating, however, produces no residual coke, and also can be used to remove sulphur, nitrogen and metals.

The choice between processes, however, is not simple. Shell Haven is a relatively small refinery, processing 5.4m tonnes of crude last year, and it is able to supply hydrogen from other refinery processes.

Shell is committed to developing hydrotreating processes. However, its Hycon process for converting heavy oils has run into, at the very least, considerable teething difficulties on bringing the process into large-scale commercial operation. Analysts also say that even if these difficulties can be overcome the technology would require that heavy crude prices be at a much steeper discount to medium and light crude than has been the case.

In short, there is no painless solution. Sulphur removal will be a high cost process, raising difficult questions about whether consumers would be willing to pay for this. Shell Haven itself was on a list for possible closure because of poor profitability, until a decision was reached in July to invest £185m in an upgrading programme. "We had to argue that there was a place for Shell Haven in Shell's refining structure," says Pearce.

Shell Haven's profits are equal to the sales prices of refined products minus crude oil prices and operating and capital costs. Following the Gulf crisis, which temporarily caused product prices to rise more rapidly than crude prices, Shell Haven was making money again, at least for a short period of time. However, Pearce says: "This year has not been very good."

Indeed only on the occasional good year in the past decade has refining oil in Europe turned a decent profit, and almost never enough to cover replacement capital costs. It is against this sort of financial background that refineries are expecting to be forced to make hundreds of millions of pounds of investments in order to meet the environmental standards likely to be imposed in the coming years.

Pollution busters head for the East

By John Hunt

Dire warnings have been given by Chris Patten, the UK environment secretary, that British exporters could lose out to foreign competitors in the race to capture overseas markets for pollution control equipment.

Britain is in danger of lagging behind in eastern Europe where the market for equipment to clean up the environmental devastation left by the communist regimes is estimated at about £8bn a year.

The hesitancy is understandable. There is shortage of hard currency available to pay for contracts, and legal and commercial confusion during the transition to a free market will remain for some time.

Deals were previously concluded with state trading organisations but western businessmen are now faced with a variety of independent organisations and burgeoning companies. "It is no good relying on out of date information about these countries," says Max Hobbs, group marketing director of Insituform Services. "You have to get your wellies on and go out there."

His company, which manufactures a new system for repairing pipelines, has already started to penetrate eastern Europe. At the International Environmental Engineering Exhibition in Brno, Czechoslovakia last month, Hobbs was swamped with enquiries.

The company has just repaired two pipelines under Vltava river in Prague which were causing pollution. Under the Insituform system a cylinder is inserted in the damaged pipe and expanded to provide a new lining. The company is now negotiating for a job on sewer pipes at Moscow State University.

Chris Salter, a director of Just Water, a West Lothian company producing water purification equipment, was surprised at the interest shown in Czechoslovakia. On the first day at Brno he had 50 enquiries. He was interviewed on local radio and his product appeared on the TV news.

The extent of water pollution in Czechoslovakia was clear in Brno itself. Until two week ago residents of this heavily industrialised town were being warned not to drink the water without boiling it.

One of the main needs in eastern Europe is for pollution monitoring equipment. The technology is not available there for measuring pollution let alone dealing with it. Openings exist for companies such as VG Instruments, a division of Fisons, which was at Brno with its selling agents Uni-Export Instruments. It provides a whole range of instruments for detecting toxic gas, minute quantities of lead or mercury, impurities in drinking water or applications for soil analysis.

It is not a market for fly-by-nights who come in to make a quick sale. Servicing of equipment is important and the company has service arms in Czechoslovakia and other countries of the region. The need to think long term is stressed by Jan Campbell, chairman and chief executive of Campbell Concept of Weybridge, Surrey, which specialises in development and investment opportunities in eastern Europe.

Campbell is dealing with a project where the Czechs have developed technology for turning ash into artificial stones. The Czech sponsors are putting up half the money but need a further £100,000 from the West.

The Czechs face vast environmental problems. Tall chimneys belch smoke from the sulphurous brown coal which causes acid rain. In Northern Bohemia near the German frontier whole areas of forest had been badly damaged by acid rain.

Bedrich Moldan, environment minister for the Czech Republic, emphasises that he would like British companies to establish joint ventures with the Czechs to tackle these problems.

Under the EC PHARE programme financial support for Poland and Hungary is likely to be extended to Czechoslovakia and other eastern European states. It is also hoped to secure funds from the United States Seed (Support for Eastern European Democracy) programme and from the World Bank. "We are now trying to solve problems that were solved in Britain 50 years ago," says Moldan.

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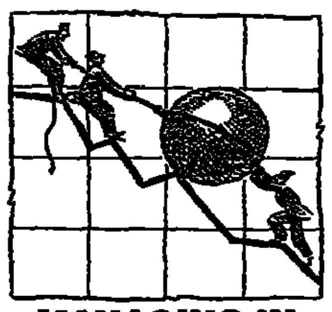
MANAGEMENT

Simon Holberton begins an occasional series which will examine the problems facing companies as Britain's recession deepens and how well placed they are to pull through

When the great leveller is confronted and deficiencies are laid bare



MANAGING IN RECESSION

It is no longer a question of whether we are in a recession, but of how deep and prolonged it will be.

The economic indicators have begun to tell us what company results and surveys by the Confederation of British Industry have been saying for months: output is falling in the face of weakening demand and company profits are being squeezed.

Most companies can make money in a boom but recession is the great leveller. It has the habit of exposing the flaws in ambitious growth strategies.

The onset of recession in the UK has laid bare management deficiencies masked by the high-growth, debt-fuelled boom conditions of the mid- to late-1980s. Companies are now engaged in a scramble to repair their overstretched balance sheets by cutting costs.

Stars of the 1980s, such as BET, the international support services company, and APV, the UK engineer which manufactures food-processing equipment, are now finding that their debt-based growth strategies are coming unstuck. Rising interest payments are eating into profits.

Even companies with sound balance sheets, such as Imperial Chemical Industries and British Steel, have instituted programmes to control costs and cut investment spending, in the case of the former, and payrolls in the case of the latter.

More generally, companies are considering and enacting a broad range of measures to cope with the downturn, all of which are designed to cut expenditure. The two main areas are labour costs and expenditure on investment. Employment policies from the shop-floor to the boardroom and all areas between are being reconsidered.

Boardroom coups, sometimes initiated by shareholder dissatisfaction, sometimes by strong non-executive directors, have resulted in high-level departures, especially where growth strategies associated with a powerful chairman/chief executive have begun to unravel.

The combining of the roles of chairman and chief executive is now decidedly out of fashion. Large institutional shareholders are objecting to it because of issues of concentration of power. It is no coincidence that those chairmen/chief executives who have resigned have been associated with growth strategies that have left their companies with too much debt.

Last week's resignation by Sir Ralph Halpern from his position as chairman and chief executive of the Burton Group was just the latest in a series of top-level resignations that include those of Michael Henderson of Cookson, John Marvin at Hickson International and James White at Bunzl.

Cookson is now paying the price for nearly £800m of acquisitions it made over the past five years. It has sold its 50 per cent interest in Tioxide to its partner ICI for £171m and Cookson Graphic to International Paper of the US for £147m. The sales should reduce Cookson's debt to around £280m – about half of shareholders' funds – but still the company will have to reduce spending on investment and research and development.

But the men at the top are not the only ones to feel the sharp winds of recession. British Steel, which is facing contracting margins and slack demand, plans "significant redundancies" in its white-collar workforce of 12,500 to raise efficiency levels. This is consistent with the reviews many companies have been making of their middle management requirements.

Recent headlines point to the onset of the effects of recession

According to Ian Gooden, a consultant at OC&C, a management consultancy, in the high growth period of the latter part of the 1980s, companies did not look at middle management with the same hard-headedness as they had been forced to look at the shop-floor during the the early 1980s.

Middle management's function is "two thirds administration – quietly passing information up, down and sideways – and one third decision making," he says. "Companies are now trying to replace this tier of middle management with information systems or doing without the middle managers by pushing responsibility deeper into the core of their business."

British Telecom is a good example of this. The onset of recession has added impetus to plans under way to take a significant number of middle managers out of its organisation. Mike Grabinder, director of quality and organisation, says the "delayering" of BT will save money but its principal aim is to bring the organisation closer to the customer so as to meet customer needs in a more timely fashion.

Further down the line jobs are also being cut. The Engineering Employers' Federation in September forecast job losses of up to 80,000 in the coming year. ECC Group, formerly English China Clays, plans to cut 750 jobs over the next five months; Howden Group, the Scottish engineer, is closing its Renfrew plant near Glasgow, with a loss of 500 jobs; and, the over-stretched Laura Ashley has plans to close five factories in the UK with a loss of 1,000 jobs.

But the trend towards traditional job cutting as a way of responding to recession concerns some who believe it may prove short-sighted. Says Bridget Litchfield, of Focus, an outplacement consultancy: "Companies are getting rid of experienced people at a time when we are told there will be labour shortages in the mid-1990s."

Investment is the other area where British industry is cutting back. ICI, which is looking hard at getting its fixed costs down, will cut at least £100m from its previously planned £1bn capital expenditure plans for 1991. In planning the cuts, Alan Clements, the company's finance director, says: "We did the figures on what we could afford to spend without letting interest cover [how many times pre-tax profits cover interest on borrowings] slip below 5 or 6 times."

BET – one of the high growth stars of the 1980s – has found it necessary to curtail drastically capital expenditures because of high debt levels. In the first half of the year capital spending fell to £166m – nearly half that of the previous corresponding period – and Nicholas Wills, BET's chief executive, says he is determined capital spending will be cut by a further £100m in the second half.

"We have now severely tightened our controls from the centre," he says. "Capital expenditure has been frozen except with my personal sanction."

But some companies are bucking the trend towards cuts in capital spending. In August, Michael Montague, chairman of Yale and Valor, the security and home products group, initiated "Operation Hairshirt", a company-wide cost-cutting drive with a difference; managers were not allowed to recommend cuts in spending on new product development and capital investment.

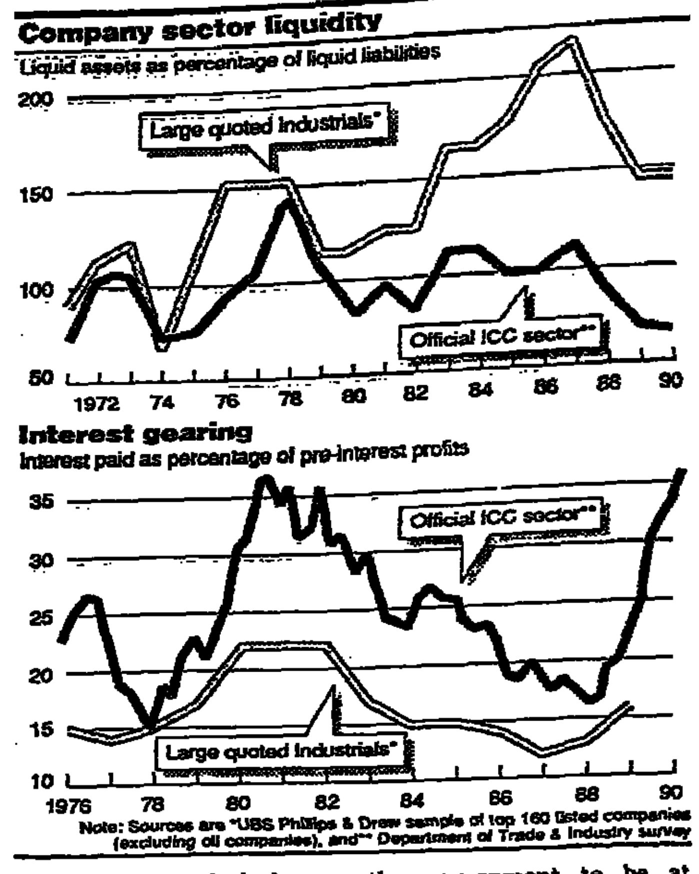
He says that Operation Hairshirt has been completed. Cost savings resulted in Yale and Valor's workforce being cut by 500 to 7,500. But investment has been preserved.

In an industry where product life-cycles tend to be around five years, "new products are the seed corn of tomorrow," Montague says. "If we neglect that then our competitors would be in a stronger position than they would otherwise be."

The evidence so far is that British industry is on the defensive; and its response to the gathering downturn is depressingly similar to industry's reaction to the recession of the early 1980s.

Investment plans are being clawed back; jobs are being cut; and management consultants are being called in to advise on "restructuring". As with last time, there appears to be a marked reluctance on the part of companies to make savings by cutting dividend payouts, the recent decision by Barratt Developments, the house-builder, to do so notwithstanding.

While all these developments have served to foster a growing sense of gloom, it is by no means clear that the recession of the early 1990s will be as severe as that of the early 1980s, although the signs already are that it will be painful and the prospect of a war in the Gulf remains the joker in the pack.



Note: Sources are *UBS Phillips & Drew sample of top 160 listed companies (excluding oil companies), and** Department of Trade & Industry survey

But whatever happens there is evidence that the financial state of UK industry is significantly different this time round compared with the early 1980s. This is what emerges from research carried out by UBS Phillips & Drew – and it is also possible to conclude from the UK stockbroker's findings that a disproportionate amount of the adjustment is likely to fall on small and medium-sized companies.

Phillips & Drew follow in detail the largest 160 industrial companies listed on the London Stock Exchange. Their research indicates (see charts) that while the government's data on companies' interest gearing, liquidity and financial deficit shows them at their most precarious for decades, the situation for larger companies is relatively sanguine.

Interest gearing (interest payments as a percentage of pre-tax profits) for all industrial and commercial companies in Britain is estimated by the government to be at around 35 per cent of pre-tax profits – higher than in 1974 and about the level of 1980/81. For the top 160, interest gearing is half that.

Company sector liquidity (short-term assets as a percentage of short-term liabilities) tells a similar story. Officially, estimates indicate that companies' liquid assets are around 70 per cent of their liquid liabilities. But for large companies, liquid assets are 1½ times their liquid liabilities.

As for the financial deficit (retained earnings less investment and stock appreciation) Phillips & Drew can find little of the estimated £24.7bn shortfall in 1989 accruing to the top 160. For the companies it follows, Phillips & Drew estimates a financial deficit of £3.3bn in 1989.

The message from these observations is clear: the lion's share of the adjustments in this recession will be felt by the small and medium-sized sector of British industry – the sector least able to raise equity finance and, therefore, as the data show, the one most dependent on the banks for finance. The large should escape relatively unscathed; the corollary, of course, is that it is a lot worse for the rest.

FT LAW REPORTS

Expert's witness need not disclose privileged report

DERBY v WELDON
Court of Appeal (Lord Justice Dillon, Lord Justice Ralph Gibson and Lord Justice Staughton): November 6 1990

An expert witness's report prepared by a party to litigation for the purposes of the trial, is privileged until disclosed by that party; and if he expressly disclaims any intention to adduce oral evidence on the topic referred to in the report, the court cannot override the privilege by ordering disclosure.

The Court of Appeal so held when dismissing an appeal by the plaintiffs, Derby & Co and others, from Mr Justice Mummery's decision (FT, November 6 1990) refusing their application for an order for disclosure of the defendants' expert accountant's report in an action against Mr A.H.D. Weldon and others.

Order 38 rule 36(1) of the Rules of the Supreme Court provides: "Except with leave of the court or where all parties agree, no expert evidence may be adduced at the trial . . . unless the party seeking to adduce the evidence – (a) has applied to the court to determine whether a direction should be given under rule 37 . . ."

Rule 37: ". . . where . . . an application is made under rule 36(1) in respect of oral expert evidence, then, unless the court considers there are special reasons for not doing so, it shall direct that the substance of the evidence be disclosed in the form of a written report . . ."

LORD JUSTICE DILLON said that on February 28 1990 the parties were given leave to call on five categories of experts including an accountant. Their reports were to be mutually disclosed.

The plaintiff retained a Mr Bridger as their accountancy expert. The defendants retained a Mr Munson.

The action arose out of the purchase by Salomon Inc, or companies in its group, of the share capital of a company called Cocoa Merchants Ltd (CML), the second plaintiff. Accounts were prepared for the purpose of the purchase. It was said that the company's indebtedness disclosed was fraudulent to deceive Salomon and that the accounts were false accounts.

By an amendment to the statement of claim the plaintiffs alleged an "alternative initial conspiracy", and set out that the accounts produced were deliberately false accounts and that Salomon and its associated companies were thereby tricked into buying CML.

The accountancy experts proceeded to prepare their statements in considerable detail, commenting on the accountancy matters which arose. Their initial reports were exchanged on July 4 1990.

The reply reports were exchanged in August. Mr Munson in his reply report said that matters dealt with in Mr Bridger's report which at that time were not included in the statement of claim but which had now been brought into the pleadings, would be dealt with in a supplementary report.

The defendants had now decided that they were not going to put in any report dealing with the alternative initial conspiracy.

The plaintiffs, however, had served a further report on the alternative initial conspiracy. They applied to Mr Justice Mummery for an order that the defendants serve within 48 hours a report of the expert evidence on the alternative initial conspiracy; and that failing such service, the defendants be debarred from relying on expert evidence on that subject or from challenging the plaintiffs' expert evidence on that subject.

Mr Justice Mummery refused to order the defendants to serve an additional expert report, and refused to debar the defendants from challenging by cross-examination the plaintiffs' expert evidence on the subject of the alternative initial conspiracy.

He gave the plaintiffs leave to serve their further report.

The present appeal was against the judge's refusal to direct the defendants to serve their expert's report on the subject of the alternative initial conspiracy.

The plaintiffs accepted the ruling that it was open to the defendants to test the plaintiffs' expert evidence by cross-examination. That must be so because it was always open to a party, within certain parameters, to test the evidence of the other side, even though the party himself was not proposing to call evidence on the particular topic.

The established practice was for the expert who had made a report to be cross-examined on that report. It was not necessary for the expert to anticipate everything that might be put in cross-examination.

The crucial question was whether the court had power to order the production by the defendants of a further report on the alternative initial conspiracy.

It was conceded by Mr Purle for the plaintiffs that, in accordance with old practice, an expert witness's report prepared for a party as proof of evidence for trial of an action, was a privileged document, the privilege being that of the litigant, not the expert.

That was why, before the Rules of the Supreme Court were amended to introduce Part 4 of Order 38 as it now was, there was no sanction for achieving disclosure of experts' reports in advance of the trial, though it was open to a party to waive privilege by voluntary disclosure.

The provisions in Part 4, in particular rule 36 and other rules, did not have the direct effect of overriding the privilege.

What they did was to empower the court to make it a condition of a party's ability to adduce expert evidence at the trial that he should have given prior notice of such evidence in the form of a written statement served on the other parties.

It might be that he could be compelled to disclose any document referred to by his expert in the expert's report and in effect incorporated in the report, but that was not this case. What the plaintiffs wanted was, if it existed, the report prepared by Mr Munson on the alternative initial conspiracy, or alternatively, that such a report should be prepared and disclosed.

Mr Justice Mummery was right in taking the view that that was a matter which he had no jurisdiction to order.

The party could choose whether or not to call his expert. His expert's report, until disclosed, was privileged. When it was disclosed it lost the privilege, but that did not waive privilege automatically over the thoughts of the expert on a topic with which he had expressly disclaimed dealing.

It was not necessary for the expert, for the purpose of putting his clients' full case before the court, to anticipate all possible lines of cross-examination that might occur to him.

The established practice was for the expert who had made a report, which was disclosed, to be cross-examined on that report and it was not necessary for the expert to anticipate everything that might be put in cross-examination.

The Rules, as at present drawn, did not give the court power to anticipate cross-examination by requiring the expert to answer further questions or make a further report before he went into the witness box.

Mr Purle submitted there was a general discretion in the court to make any orders which were necessary and reasonable as ancillary to the administration of justice at the hearing of an action.

But in this particular territory it was a matter for the Rules Committee to make any amendments to the Rules which were necessary to change the procedure. It was not for the individual judge to make up a new procedure.

Mr Purle relied also on the general power of the court under section 37 of the Supreme Court Act 1981, to grant an injunction in all cases in which it appeared to the court to be just and convenient to do so; and he said that that entitled the court to order disclosure of information.

So it did in an appropriate context. But it did not entitle the court to override privilege.

The report that Mr Munson had already made did not waive privilege on any subsequent views he might have on the subject of the alternative initial conspiracy, if indeed those subsequent views had already been embodied in a further report.

The whole process of the production of reports by way of documentary evidence could not attach at all where no report had so far been written.

The appeal was dismissed.

Lord Justice Ralph Gibson agreed. Lord Justice Staughton gave a concurring judgment.

For the plaintiffs: Charles Purle QC (Lovell White Durrant).

For Mr Weldon and the second defendant, Mr Ian Jay: Michael Green (Hopkins & Wood).

For the third to 12th defendants: David Hunt QC and Miss Lindsey Stewart (Allen & Overy).

Rachel Davies
Barrister

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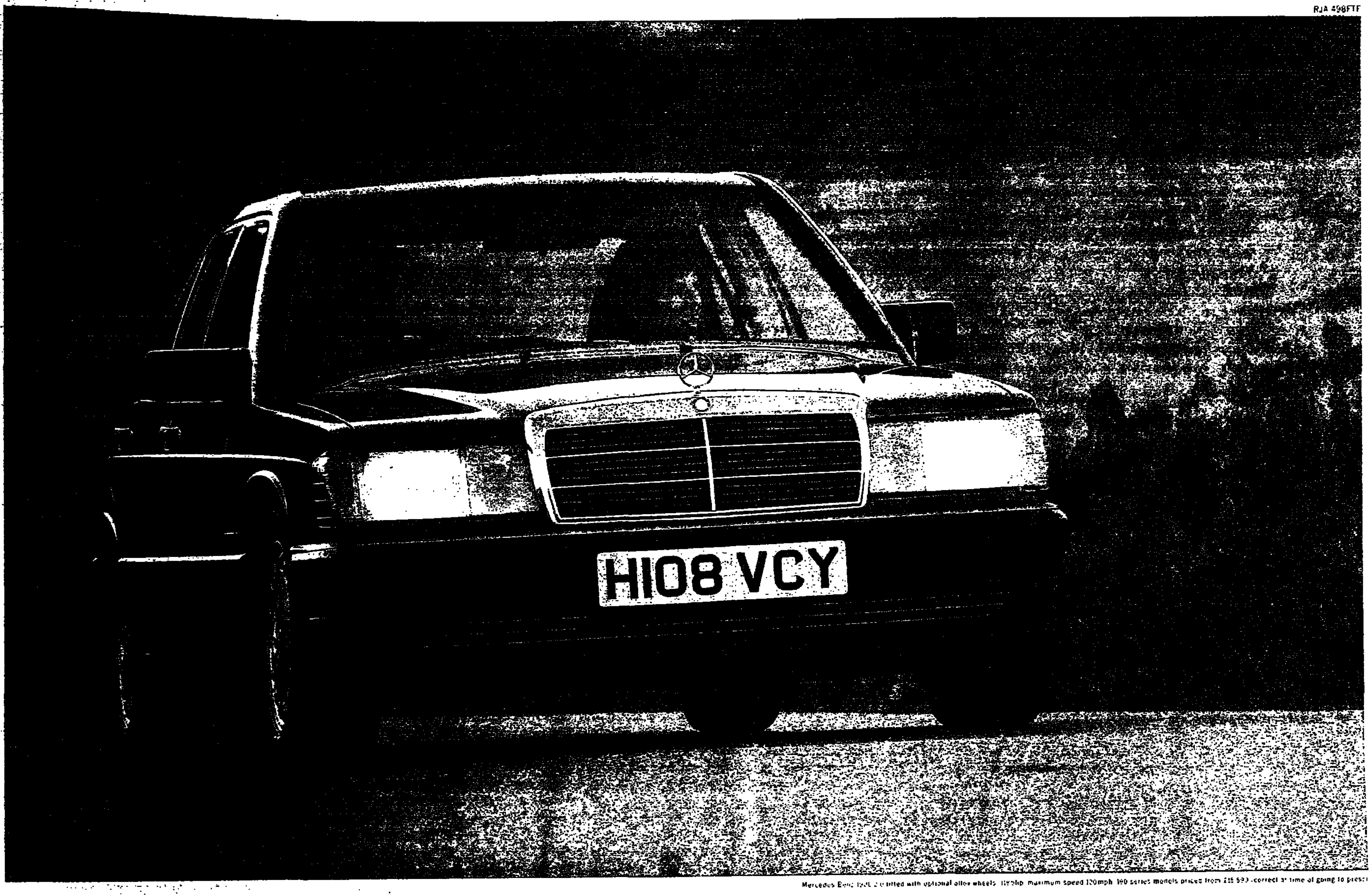

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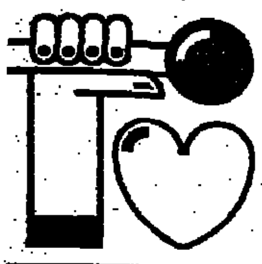


After a period of unprecedented prosperity in the 1980s, the $150bn world pharmaceutical industry faces problems in the '90s, writes **Clive Cookson.** These include renewed pressure to hold down health care costs, and greater competition from generic drugs

Drug industry still healthy

WITH the world entering a recession, the defensive qualities of the pharmaceutical industry have been shining out over the last few months.

Pure drugs companies continue to announce earnings growth of 15 to 20 per cent, and giant chemical groups such as ICI, Bayer and Ciba-Geigy, are relying on their pharmaceutical businesses to compensate for a severe fall in profitability in other activities. (In ICI's case, drugs represent only 11 per cent of sales but contributed 75 per cent of profits in the third quarter of 1990.)

Drug sales are hardly affected by the ups and downs of the economy. As Sir Paul Girolami, chairman of Glaxo, the most successful UK pharmaceutical company, puts it, "people can decide to postpone buying a consumer product if money is short but they buy our products on the basis of real need".

In the long run, however, the structure of industry is being changed by a variety of political, financial and scientific forces – some of which seem to threaten the steady growth in profitability of drug companies.

Perhaps the most important problem for the future is the growing pressure from governments – which are the industry's main customers in most parts of the world – to reduce the price of medicines.

Japan already has a system under which the price of all existing drugs is cut by 10 to 15 per cent every two years. In Europe the political pressure for cheaper drugs is almost certain to intensify after the EC has moved to open up the pharmaceutical market after 1992 – different national regulations and pricing schemes mean that formidable non-tariff barriers still exist today. In the US, Congress last month passed a bill forcing companies to offer substantial discounts to the federal Medicaid programme.

"All governments are schizophrenic about their pharmaceutical industries," says Dr Peter Doyle, research director of ICI. "They extol the achievements of their national pharmaceutical companies – and then they look for ways of cutting health care costs.

"The popular perception is that pharmaceuticals are highly profitable," Dr Doyle says, so they are a tempting target for spending cuts, even though drugs represent only 8 to 10 per cent of health costs. The UK government should be particularly cautious about damaging its pharmaceutical companies because they are so important for the country's industrial performance; the UK trade surplus in pharmaceuticals reached £955m in 1989. At the same time the National Health Service spends substantially less on drugs than its counterparts in other western countries (about half the level in France, for example).

Another problem for the industry is that 80 per cent of today's best-selling drugs will lose their patent protection within five years. Manufacturers will then face competition from cheap "generic" copies. Of course, they are investing heavily in research and development to bring on new drugs – large companies spend about 15 per cent of revenues on R&D – but these may not compensate for the lost sales from off-patent drugs.

"The 1980s were particularly good years for the industry," says Mr Bob Bauman, chief executive of SmithKline Beecham, the Anglo-American giant formed last year through the merger of SmithKline Beckman of the US and Beecham of the UK. "There are pressures on pricing and I think it would be difficult in the 1990s to exceed the growth rate of the late 1980s."

But the "problems" of the industry should be kept in perspective. Even pessimists expect the large companies to achieve 10-12 per cent earnings growth over the next five years. On the positive side, the industry still has considerable scope for reducing costs and improving efficiency through restructuring.

The great wave of pharmaceutical mergers in 1989/90 combined SmithKline Beckman with Beecham, Bristrol-Myers with Squibb, Marion with Merrell-Dow and Rhone-Poulenc with Rorer. Recent financial results from the merged companies show that profit margins are already improving.

Although no new mega-deals have been announced over the last few months, analysts believe there are more to come in the years ahead.

Behind the well publicised bids and mergers lies less visible but equally significant restructuring. "Once the bastion of secrecy, pharmaceutical companies around the world are enmeshing themselves in a complex series of strategic alliances," says Mr David Alcraft, European manager of PA Consulting Group's healthcare business. "Project and product swaps are becoming commonplace as companies struggle with a changing economic reality."

The "globalisation" of the industry in the 1990s will be assisted by the standardisation of regulatory approval procedures for new drugs. As European regulations are unified after 1992, they will gradually come together with those of the Food and Drug Administration in the US.

"There is an ever increasing emphasis on the harmonisation of drug developmental procedures, so that common standards are used in the clinical testing and evaluation of medicinal products throughout the world," says Dr Ludo Reynders, managing director of Quintiles (UK), a contract research company.

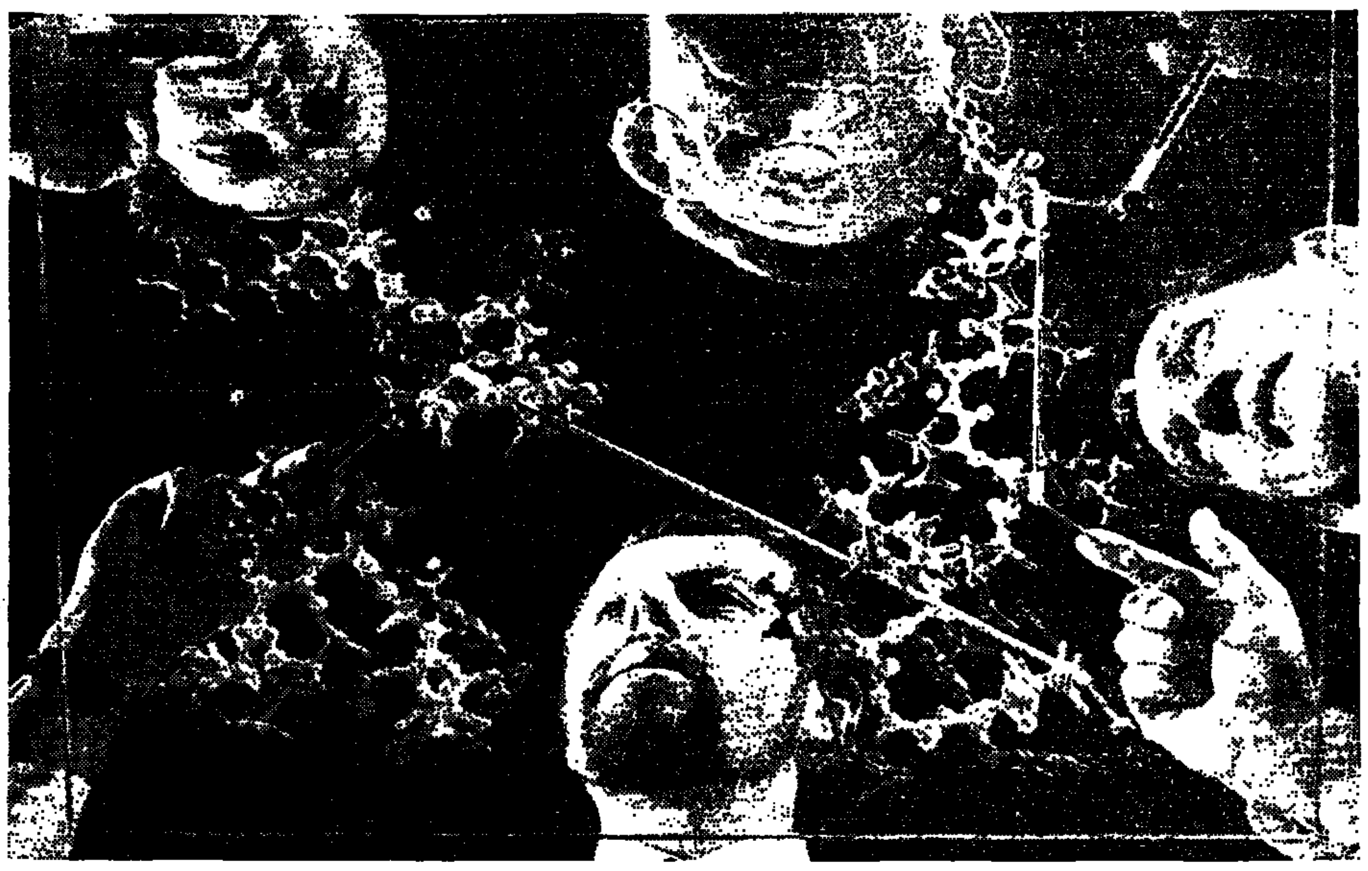
Even in Japan, where the approvals process seems designed to protect local pharmaceutical companies as much as Japanese patients, the Ministry of Health and Welfare is becoming more willing to accept toxicity tests and pre-clinical data from overseas. But the ministry still insists on Japanese clinical data before it will consider any new drug. (One sign of progress is that the contraceptive pill is likely to be approved in Japan next year – after three decades of use in the US and Europe.)

Dr Jim Armstrong, president of ICI-Pharma in Japan, expects the Ministry of Health and Welfare to come further into line with European and American practice following an international conference of harmonisation of pharmaceutical regulations, planned for Brussels next year.

Liberalisation of Japan's £20bn-a-year pharmaceutical market coincides with moves by the large Japanese drug companies to break out of their home base and expand overseas. Yamanouchi has so far pursued the most active globalisation strategy – it has built a manufacturing plant in Ireland and a UK research centre in Oxford, set up six representative offices outside Japan to co-ordinate clinical development, bought Shaklee (the US supplier of nutritional supplements), and is now negotiating to buy the pharmaceutical operations of Gist-brocades, the Dutch chemical company.

It would be misleading, however, to describe the pharmaceutical industry only in terms of global expansion. Although integrated drug companies will need to have a worldwide sales capability, if they are to thrive in the next century, there will still be room for small pharmaceutical companies with low overheads, national or regional sales forces and limited development activity. These could make generic drugs or focus on profitable market niches which the giants have neglected.

The companies that manufacture and sell drugs support a vast number of smaller concerns carrying out contract research and making chemical ingredients for them. Some of these employ only three or four people – all with PhDs – making tiny quantities of extremely expensive chemicals which the giants need for their development of new drugs.



Pharmaceutical R&D is a £10bn industry (see page 4). Here a team from Glaxo discuss the design of a new chemical entity

IN THIS SURVEY

A scene at the Beecham factory in Sussex

David Fishlock looks at the biotechnology row

Scepticism grows

"BIOTECHNOLOGY-DERIVED pharmaceuticals and diagnostics are beginning to arrive on the market. Our assessment convinced us that biotechnology remains a topic of immense potential, requiring continued long-term investment in the science base."*

This is the conclusion of the British Government's Advisory Council on Science and Technology (Acost) which last summer published a review of this "emerging technology" just ten years after the Spinks Report – also from the Cabinet Office – had forecast the growing importance of biotechnology. The Acost report appeared at a time of growing commercial scepticism about the risks and rewards of investment in biotechnology.

This year has seen Genentech, pacesetter among the biotechnology research and development companies, invite one of its main R&D contractors to buy a majority shareholding, in order to give it more working capital. Genentech, launched in 1977, pioneered the idea of growing a new pharmaceutical company from scratch. Now it is a subsidiary of a well-established multinational, Hoffman-La Roche, with sales more than 20 times Genentech's $400m last year.

The field requires 'continued long-term investment'

Cetus, slightly older, and rescued first in the early-1980s, plunged again into trouble last summer when the US Food and Drug Administration refused to approve its clinical case for Proleukin (interleukin-2) for treating kidney cancer, after considering the data for nearly two years. US investors had apparently been led to expect approval but the FDA concluded that Cetus might be overstating its case. The fracas cost Cetus its president and chief executive officer Bob Fildes, and it posted a loss of $61m for 1990. It admits that its operating expenses of more than $100m this year "were based on expected approval of Proleukin" and it must now shed 100 staff (13 per cent).

In Britain, Celltech, set up in 1980 with public and private venture capital to pursue the route Genentech and Cetus pioneered in creating new pharmaceutical companies, spent many months seeking an investor to replace its biggest shareholder, the ailing British & Commonwealth Holdings. It failed to find one that wanted to invest in the whole portfolio built by Gerard Fairlough, founder and chief executive.

However, it did find Peter Fellner from Roche to replace the retiring Mr Fairlough this autumn. Mr Fellner expects to focus on fewer R&D projects but to spend more heavily in total in trying to win approval for its new medicines. Meanwhile, some cuts in the payroll seem likely.

Stockmarket worries about biotechnology have undoubtedly been exacerbated by the failure of Porton International to live up to its claims. This biotechnology company was financed by leading investment houses and pension funds, not by venture capital. Its founder, Wensley Haydon Baillie, secured backing from numerous City funds at a high level of authority, above the fund managers. Porton's troubles reached a new low last spring when it abandoned much-publicised initial plans to develop the Skinner vaccine as a treatment for herpes. City investor Biotechnology Investments Limited (BIL), the N.M.Rothschild trust which has specialised in supporting biotechnology start-up ventures since 1981, did not back Porton. "We have learned from the mistakes we made in our earlier biotechnology investments", admits a spokesman. The trust backed such companies as Genentech and Celltech as start-up operations and sold its shares profitably, to reinvest in fresh start-ups.

For many, BIL remains the touchstone of quality in biotechnology R&D companies by virtue of the expertise and trouble it puts into analysing both the market and the invitations to invest. One favoured "second-generation" start-up is British Bio-technology at Cowley near Oxford, which since 1986 has grown to a team of 180 and attracted more than £30m of venture capital to fund its quest for new orally active medicines, to treat cancer, rheumatoid arthritis and other diseases. It has recently completed a £3.5m investment in manufacturing capacity to make enough of its new drugs for clinical trials. BIL is its biggest investor with 11.4 per cent of shares, but it is also backed by US and Japanese venture capital. British Bio-technology will be brought to the market at latest by 1993, forecasts Keith McCullagh, chief executive.

Another promising British start-up of the mid-1980s backed by BIL is Xenova, a company which John Jackson, its chairman, freely acknowledges is not really a biotechnology company. "...But we've recognised that biotechnology is a rich source of tools to accelerate drug development," he said. Xenova, brainchild of microbiologist Dr Louis Nisbet, is using the new biotechnologies such as genetic manipulation to make highly selective screens with which to sift natural micro-organisms for molecules that might make new medicines.

The Acost report referred to above admits that the 1980 Spinks Report "was, in general, too optimistic about the timescale for the transfer of research into products; some diagnostics and therapeutic drugs have appeared, but much of the potential is only now beginning to be realised". It also notes that significant scientific advances in molecular biology have occurred since 1980.

*Developments in biotechnology, HMSO. £8.50.

Sally Field on the technicalities the makers trip on

Beating the clock as the patent ticks away

PATENTS throughout the EC are granted for a period of 20 years which commences from the date of filing the application for the patent. In most countries patents are granted to companies or individuals who are the first to file for the patent. In the USA, however, the patent is granted to the first to invent (not necessarily the first to file).

In "first to file" countries companies are under great pressure to file as early as possible. This means that the 20 years start ticking away at a stage when, in many cases, the new chemical entity has only just been identified. After the patent application is under way, getting over the regulatory hurdles to obtain a product licence – a necessary stage before marketing – often takes between seven and 10 years, if not longer. The effective term of the patent – the period of market exclusivity – can often be reduced to between five and 10 years, rather than the 20-year monopoly enjoyed by non-regulated inventions.

Getting over the regulatory hurdles to obtain a licence can take seven to 10 years

This situation has resulted in pressure on the European Commission to introduce a new system of "effective patent term". The proposals submitted by the Commission in April this year (but not yet in force) recommend providing up to 16 years of market exclusivity by allowing for a maximum of 10 years' protection after patent expiry. The mechanism for this would be for companies to obtain what is presently called a supplementary protection certificate (SPC) and would effectively increase the period of market exclusivity enjoyed by a product.

The protection provided by these certificates would relate only to the product covered by the marketing approval and could relate only to one basic patent. In the UK, marketing approval is obtained by way of a product licence issued by the Department of Health. The basic patent will normally be the patent for the new chemical entity itself which forms the active drug substance. It is likely, however, that this will not cover subsequent "improvement" patents, although there is likely to be considerable dispute as to whether a patent for a new invention has the characteristics of a "basic" patent. Under this proposed system, it is up to the owner to decide which is the basic patent.

The European Commission's proposals cover the duration of the protection, the scope of application, the protection conferred by the SPC, the procedure for filing the application, and an outline of some transitional provisions:

- **Duration of protection** – Article 8 of the proposal provides a ceiling of 30 years' monopoly protection from the date of patent filing. This is broken down to the 20 years of protection given by the patent, with a maximum of 10 years' protection after patent expiry.

SPC protection starts the day after the expiry of the term of the basic patent; it lasts for a period of time equivalent to that which may have been lost in the early days of the patent. Article 8 of the proposal specifies this as the time between filing and the first time the product receives marketing approval in an EC country – minus four years.

- **Scope of application** – The conditions which must be met to benefit from the SPC are set out in Article 3. This states that the product should be protected by a current patent; the product should have received valid marketing approval; and no SPC should have already been granted.
- **Protection conferred by the SPC** – This relates only to the product covered by the marketing approval and covers all uses approved before the expiry of the basic patent.

The SPC grants the same rights as those conferred by the basic patent and is subject to the same limitations. This will presumably mean that SPCs can be licensed in the same way as patents.

- **Procedure for filing the application** – Any company wishing to obtain an SPC will need to file an application with the central industrial property office of the member state in which the product was first approved. This application should be made within six months of the product's marketing approval. If, for any reason, the approval occurs before the granting of the basic patent, the SPC application must be made within six months of the granting of the patent.

The new rules look set to achieve a longer period of effective exclusivity

- **Transitional provisions** – When the proposal becomes a regulation, any product which is covered by a patent with an expiry date later than January 1 1992, and whose marketing approval was granted after January 1 1984, will be eligible for an SPC. For these products the maximum protection period of the SPC will be five years. In such cases, applications must be filed within six months of the implementation of the regulation.

SPCs, therefore, look set to achieve a longer period of effective exclusivity for drugs in the future – providing pharmaceutical companies with a slightly more relaxed atmosphere in which to operate. When drafting licences in future, companies must take the extended protection into account. As already mentioned, this proposal is only in draft form but we should all keep a close eye on the European Commission as the proposal develops.

Sally Field is a partner of Bristows Cooke & Carpmael, lawyers specialising in intellectual property.

Can we ever be sure? asks Elisabeth Tacey

Twelve-year trials might not be enough

THERE is an advertisement in London Underground stations which shows a rather intimidating-looking business executive reaching forward across a desk towards the viewer in an I'm-far-too-go-ahead-to-sit-down pose, holding or being handed half-a-dozen phones, while hands thrust documents from all sides towards the desk and papers, cups and other paraphenalia threaten to topple on left and right. The caption above reads: "I DON'T TAKE TRANQUILLISERS" in writing like that used for cries of panic in comic-strip cartoons: "AAARRRGGH!!!" Then in calm, reassuring script underneath: "I take Natracalm."

The ad designers are exploiting the notion that tranquillisers by definition are dangerous drugs only made in laboratories, and that "natural" substances are not only safe but desirable to improve your health and give you a boost that will propel you to the top.

Health pills are not licensed, so do not undergo the trials that medicines do

Yet health pills are not licensed, so do not have to undergo the trials that medicines do. Other varieties of health pill contain a substance called valerian, a toxin derived from a wild hedgerow plant, which has been blamed for 11 cases of poisoning reported to the Committee on Safety of Medicines since 1984. A doctor treating one patient said: "Eight involved liver poisoning and there was one death – that's 10 times the mortality of hepatitis B."

In September, tryptophan, an amino acid that occurs in the body and was being sold in tablet form as a natural aid for muscle-building and to fight insomnia and premenstrual tension, was banned from chemists' shelves amid fears about its safety. It was linked to 22 deaths and about 1,500 cases of a rare, potentially fatal blood disorder in the US.

Tryptophan is not classified as a drug – manufacturers make no medicinal claims – but as a food, and is covered by the Ministry of Agriculture, Fisheries and Food, not the Department of Health or the Medicines Act, passed in 1968 following the thalidomide tragedy. Drugs covered by the Medicines Act must be licensed – but if they were already on the shelves when the Act came into force and were deemed to be for a "minor, self-regulating condition", they received a licence as of right.

These licences, some 39,000 of them, are being reviewed, and a final report is due out this month.

But prescribed drugs, after extensive development and testing times necessary to win regulatory approval (between eight and 12 years in the UK) have been found to have adverse, and sometimes horrendous, side-effects. Names such as Opren and thalidomide spring to mind.

There is controversy now about a heart drug, Corwin, licensed in 1988, which some members of the medicines safety committee have urged be banned.

Drug companies and the British Medical Association protest that adverse reactions can only show up after thousands or perhaps millions of people have used the drug, and perhaps only in certain cases. Indeed, sometimes there are calls, such as in the case of AZT (Retrovir) used to hinder the onset of Aids, for the usual lengthy trial procedure to be cut short.

The BMA, in a well-regarded book called Living with Risk*, says: "At present only a relatively small number of patients (up to about 2,000) are exposed to a new drug before permission is given for its release to the market. Among this number an adverse effect has to be really rather common to show up in the statistics, especially as many adverse effects are quite frequently encountered on their own...If the incidence of the adverse effect is one in 500 but it still occurs normally in one in 100 patients, then nearly 36,000 patients will have to be exposed to the drug before that adverse effect can be detected." It concludes that the occasional occurrence of serious side-effects is "inevitable if new drugs are ever to be introduced".

But there are also criticisms of the trial methods used. The BMA points out that doctors voluntarily report adverse effects, so there is under-reporting and the reports are open to bias. Professor Bill Inman, head of the government and industry-sponsored Drug Safety Research Unit at Southampton University, has set up an alternative method of surveillance called prescription event monitoring. Copies of prescriptions for the drug being studied are obtained from the health department, and a questionnaire is sent to the prescribing doctor. The doctor is asked to report all medical events that have happened to the patient since the drug was prescribed, so the study does not rely on the doctor's assumption of the drug causing the event. The BMA says this method appears to identify adverse effects that occur one in 3,000 times or more, and can be [illegible] on more patients (10,000-20,000 per drug) than formal clinical trials. Professor Inman says it has succeeded "even beyond my expectations".

Occasional serious side-effects are 'inevitable if new drugs are ever to be introduced'

Professor Inman is an outspoken critic of the way some drug companies attempt to persuade GPs to prescribe their new drugs to provide data.

The companies want large numbers of GPs to prescribe their new drugs within the first year or so of the drugs' arrival on the market to monitor any adverse effects. A small number, Professor Inman believes, pay the doctors to take part in the trials.

Similar payments have been made by "health" pill companies to private and "alternative" practitioners, even though these pills are not licensed. The BMA has called such payments "unethical", and the Institute of Complementary Medicine agrees.

The medicines safety committee relies for its safety information on drug companies

There has also been criticism of the medicines safety committee, which advises the government on granting of licences. Professor Inman would like to see this organisation made independent rather than part of the health department. The committee relies for its safety information on the drug companies, having no independent testing facilities, and most committee members are linked with the industry as consultants or as receivers of research grants.

But, as one member argues, if expert pharmaceutical scientists without any links with the industry are wanted, "there would be no-one to sit on the committee".

It would appear that drugs cannot be made "safer" except by lengthening the testing time before they are released to the market. For the few drugs with unpleasant side-effects that would be found, how many sick patients would be denied effective drugs? And in terms of relative risk, we should worry much more about crossing the road.

**The BMA Guide to Living with Risk, Penguin Books, 1987.*

The sector is still in a co-operative mood, writes Alan Archer

The flood of mergers has slowed to a trickle

THE TRANSFORMATION of the world's pharmaceutical industry during 1989-90 almost reached fever point with monthly reports of various mergers and acquisitions. As 1990 comes to an end the "mega merger" seems to have slowed down; several smaller deals, however, continue to filter through. Hemant Shah, a US independent analyst, estimates there was $45bn worth of mergers and acquisitions in the industry in the last two years.

These events, which have unsettled scientists and managers alike throughout the $100bn pharmaceutical industry, will not entirely stop as we enter 1991 – or, for that matter, the remainder of the decade – but perhaps a different type of industry relationship will emerge: a network of alliances using all the expertise and skills that exist within the industry.

The number of new drug applications has decreased by about 10 per cent every year

The pharmaceutical industry has always been research-driven and the "jewel in the crown" has always been the discovery of a new chemical entity (NCE). However, despite growing R&D budgets – R&D expenditures have risen 15 per cent annually since 1988 – there has been a marked drop in research productivity. The number of original new drug applications (NDAs) submitted has actually decreased by about 10 per cent every year.

One of the more popular alliances is the small/big company product swap. The smaller company with innovative research may prefer to licence out or co-develop the rights of a long-term potential block-buster product to the big company in return for several smaller older products, which will enable the smaller company to fund future clinical and marketing development without seeking low-valuation equity offerings. At the same time, the larger company funds future R&D effort of the long-term product with the proviso that the smaller company retains the patent and receives royalties on sales if the product makes it to the marketplace.

The latest example of small company/big company relationship is Ciba-Geigy's $30m equity and five-year co-operative research investment in Isis Pharmaceuticals, a small company based in California, for the use of innovative molecular biotechnology techniques. At Ciba-Geigy's International Pharma R&D Conference in Basle on 5 November, Dr Rudolf Andreatta, head of pharmaceutical exploratory research & services said, "this agreement shows an understanding of our weaknesses. We accept that we are one of the world's largest pharmaceutical companies with many strengths; however we cannot cover all the areas of research and technology and must look to outside, mainly to the smaller specialist companies to somehow help us to further our research."

Funding and new sources of R&D are just two possibilities of alliances. They can also be used to find new products more cost effectively, to build up sales and marketing capabilities, to renew or extend patent life, to exploit a new global or regional marketplace, and perhaps to help companies focus on what for them is a niche area.

Alliances used to increase sales effort have so far proved to be most successful with perfect examples in the Glaxo/Roche co-promotion in the US with Zantac; the Boots/Upjohn US promotion with Ibuprofen; and the recent t-PA co-promotion between Genentech and Boehringer Ingelheim US. The latest co-promotion deal is that of SmithKline Beecham which has agreed that Upjohn market Eminase in the US.

Very few companies will be able to cover the world market by geographical area and therapeutic class. Perhaps only Merck will be capable of doing both, says Robin Gilbert, analyst at James Capel. Glaxo, SmithKline Beecham and Bristol Myers Squibb, while trying to be truly multinational, have several limitations in terms of therapeutic categories. Some companies seem to have become grouped as niche players in respect of their product category, such as Hafslund Nycomed, Fisons, Novo Nordisk, Forest Labs and Alza. Those companies that do not focus or define their true strategic target and fail to understand advantages over competition will be the next to become merger candidates.

It is in the Japanese sector that the stated objective to gain an international position is of prime importance, with leading companies being Fujisawa, Eisai, Yamanouchi and Chugai. In the past year many Japanese drug companies have established European offices, and set up research facilities in the UK and the US, as well as making several interesting small research oriented acquisitions.

Companies must start thinking of themselves as being 'in the healthcare business'

Pharmaceutical companies must stop thinking of themselves as being in the pharmaceutical business and must accept that they are in the healthcare business, says Dr Joseph Zammitt-Lucia, director of Cambridge Pharma Consultancy. This implies a change in business focus and behaviour, which very few are able to achieve. Once again it is Merck which is showing the way to how a change in focus can be achieved in practical terms, he says.

Two recent examples illustrate this. The latest is the surprise announcement in July 1990 of a R&D joint venture with Du Pont Pharmaceuticals. Merck agreed to contribute substantial R&D and marketing clout to the joint venture, rather than to its own R&D pipeline. This highlighted the forward and positive thinking of the company. However a new and different slant in the Merck-Du Pont joint venture was Merck's unwillingness to simply combine R&D operations. Merck wants the Du Pont group to remain independently motivated as a separate organisation, maintaining the research culture, environment, management and rewards system which has kept it productive up till now. As a 50-50 partner in profits and expenses, Merck will simply add funding and marketing skills.

The earlier Merck agreement also came as a surprise at the time, but with hindsight it highlights how far ahead in terms of management strategies, ideas and concepts Merck is. The deal involved Merck's first relationship with the OTC market through its alliance with Johnson & Johnson. Several other companies have followed this route: Marion with Schering-Plough, and Syntex with Procter and Gamble.

The industry is still seeking answers to meet the generic challenge. This has been partly met by some companies having their own generic operations, while others are seeking alliances to come up with line or market extensions. The Pfizer/Alza co-operation on the once-a-day Procardia XL is a good example.

There is a growing divide in the industry between companies which are good at discovering products and those good at developing and marketing them. Both sets of skills are obvious requirements for a successful company, but is it important that one company needs to have both set of skills?

Many analysts and industry strategists are of the opinion that the top pharmaceutical companies over the next decade will be those which have obtained the skills to source the substantial and various fields of expertise within the industry, without having to own them.

Alan Archer is editor of Pharmaceutical Business News

The route to the market

THE procedure for winning approval to market a drug in all countries of the European Community is largely untested. Mrs Frances Charlesworth of the Association of the British Pharmaceutical Industry is guardedly polite: "Intellectually we think they're going down the right track, but the potential for bureaucratic nightmare is high."

There are three routes. If a drug is only to be marketed in one country, only that national authority needs to approve it as now.

If the drug is to be marketed in several EC countries, the manufacturer can either submit it to its own national authority (the decentralised procedure) or via the centralised procedure through the Committee for Proprietary Medicinal Products, part of the European Medicines Agency – unless the pharmaceutical is a biotechnology product or contains a new active substance, in which case it has to take the centralised route. The steps are shown in the flowchart.

The decentralised method is essentially mutual recognition with possibilities of discussion between the parties, or arbitration by the CPMP, which would take the drug into the centralised path. By 1996 recognition of each member state's authorisation becomes mandatory for other members.

Companies argued for appeals procedures at every stage: they were concerned that an isolated set of bureaucrats could throw out drugs that took typically £100m and up to 12 years to produce, on non-scientific grounds.

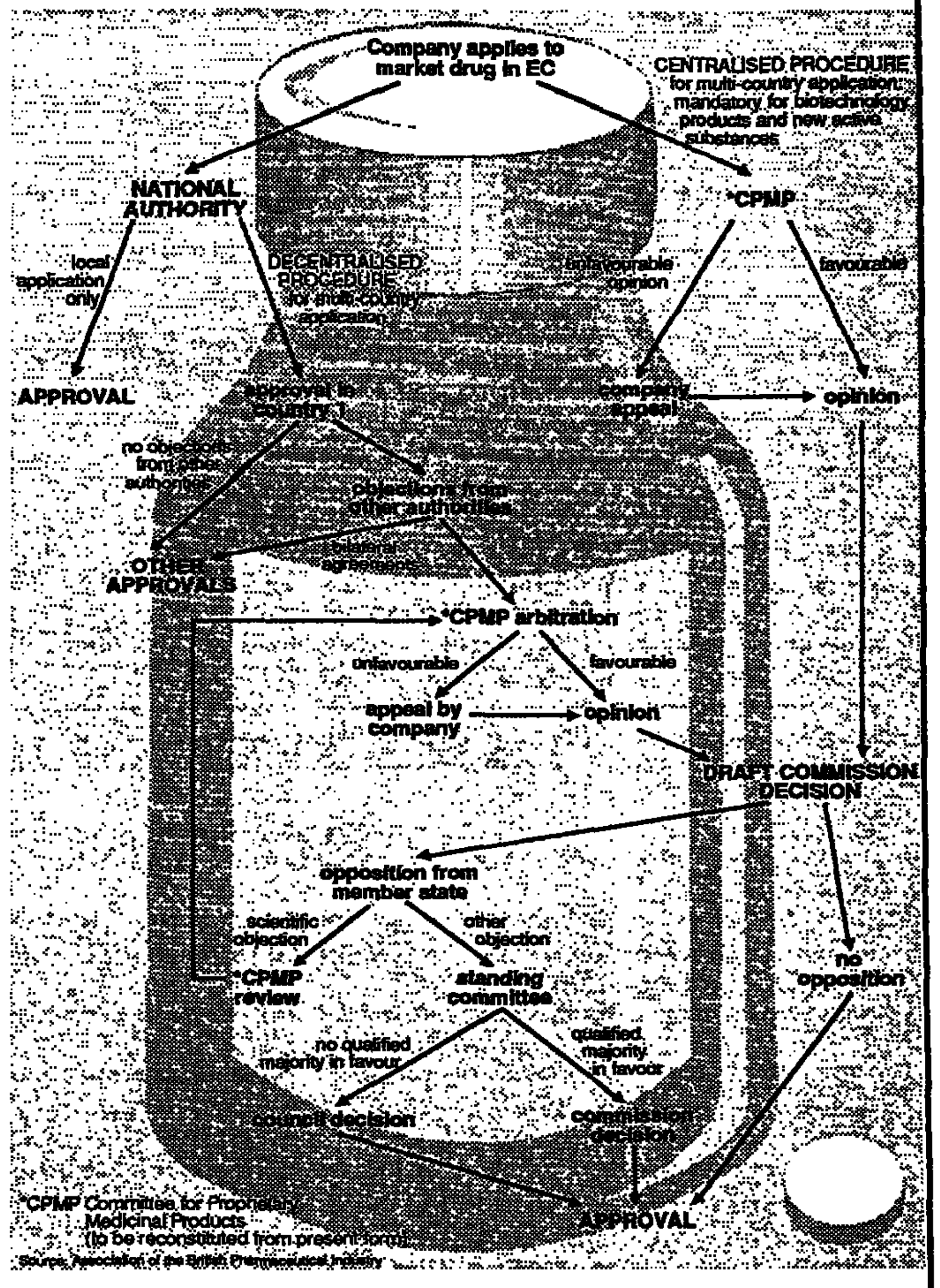
Another concern of the companies is the structure of the CPMP. Now it constitutes representatives of national agencies, whose opinions could be coloured by national bias. The plan is for it to be made up of scientific, independent experts who would have to arbitrate between national bodies of scientific repute:

"If it is to have credibility its expertise will have to be equal or superior to that of national advisory committees," says the ABPI, adding that it must have the structure to review its own decisions.

"Observers of medicine registration may wonder at the decision to place such enormous responsibility and diversity of workload in the hands of a body (even when reconstituted) which appears not to have found it altogether easy to work as a team."

The ABPI is concerned about the possibilities for getting trapped in bureaucracy. "It should be remembered that the object of all this attention – the patient – needs new medicines assessed in a timely manner on the scientific criteria of safety, quality and efficacy." Mrs Charlesworth adds: "The patients want the drugs sooner rather than later".

Elisabeth Tacey



*CPMP Committee for Proprietary Medicinal Products (to be reconstituted from present form)

Source: Association of the British Pharmaceutical Industry

David Fishlock looks at drugs research

A £10bn industry

DR RICHARD SYKES, the microbiologist who manages Britain's biggest pharmaceuticals research and development programme, has a simple view of his job. He has an international team of 5,500 spending more than £400m a year. The company for which he is research director, Glaxo, produces truckloads of paper – documents relating to the safety and efficacy of proposed new drugs. He says his job is to write drug licence applications in such a way as to persuade the authorities to accept his case for marketing the new drugs.

Worldwide, pharmaceutical R&D is reckoned to cost more than £10bn a year. No industry makes a more convincing case for the value of R&D in support of product innovation. Its success has encouraged many chemical companies during the 1980s to pursue other niche markets for highly priced chemical specialities, often biologically active compounds.

A small number of developed nations – France, Germany, Italy, Japan, Switzerland, the UK and the US – account for about 80 per cent of the R&D effort. All seven increased their spending steadily during the 1980s. Glaxo, for example, has quadrupled its R&D budget in the last five years and now does about one-third of it outside the UK.

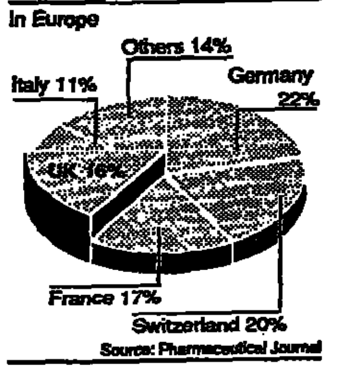
The challenge to research management is to create an environment that favours and is conducive to innovative research, but which, when an innovative discovery is made, acts efficiently to capitalise on it, says Dr Barry Cox, manager of ICI's R&D into cardio-vascular drugs.

The life cycle of a typical research phase for a new medicine is five to ten years. If this is successful, it will be followed by a development phase of up to 11 years. Some companies are developing a R&D strategy which involves spreading their programme around the world to help harness different R&D cultures. Some governments demand this as a condition of licencing the company's medicines for purchase by their own health service.

Britain enjoys a particularly productive R&D culture, which is reflected not only in the scale of the effort by UK-based companies but also the scale of investment by overseas firms in UK-based laboratories. The seven biggest UK-owned companies accounted for only about 50 per cent of British research into new medicines between 1982-85, rising to 60 per cent in 1987, according to the Centre for Medicines Research, a statistical unit supported by the UK pharamaceutical industry. By the late-1980s six of the 15 top-selling medicines worldwide were based on discoveries made in the UK.

R & D expenditure

In Europe



Source: Pharmaceutical Journal

Total R&D expenditure by more than 40 UK companies questioned by Dr Cynthia Lumley and her colleagues at the Centre for Medicines Research is estimated at £749m for 1988, a 103 per cent increase from 1982 (61.7 per cent when corrected for inflation). The fastest-growing facet of R&D is pre-marketing clinical studies, up 190 per cent over the seven years, and by 1987 accounting for more than 17 per cent of the R&D budget.

ICI's Dr Cox says that increasing competition among the research-based pharmaceutical companies has encouraged them to develop strategies for efficiency and success in R&D. As a result there are examples ranging from "a relatively free association of scientists who are allowed to range far and wide and follow their whims, to highly controlled environments with tightly monitored targets."

Dr Cox identifies three key elements of any R&D strategy for new medicines. The prime one is technical feasibility – self-evident yet still not always recognised, he says. He believes industry should leave the unravelling of basic questions underlying a disease to academia. Industry's role should start with exploratory research embodied by the question: "Can we find ways of interfering with the process in the prescribed way?"

After technical feasibility, the next most important element is the product champion. "The art of good research management is to identify the next product champion, not the last one."

Dr Cox's third element is staff competence. Since this is mainly a matter of recruitment, training and experience, "it is the only one of the three that can with any certainty be deliberately designed".

Behind the industrial R&D in Britain stands a substantial academic research effort concerned with disease, funded by government (about 45 per cent), medical research charities and the pharmaceutical industry.

It's a spider's web of rules, writes Alan Pike

Smart marketing

THERE are few more delicate relationships than the one between doctors and pharmaceutical companies.

With the development costs of a new medicine likely to exceed £100m, manufacturers naturally want their drugs to be successful and profitable. This depends on doctors prescribing particular products. But any suspicion that doctors' decisions were influenced by drugs companies would shatter another delicate relationship – the trust between doctor and patient.

This means that the marketing of pharmaceuticals is far more controlled than anything most other industries have to contend with.

Advertising companies handling accounts in the medical press face a unique creative challenge – how to make advertisements look eye-catching and positive, while having to accommodate hundreds of words of footnotes on dosage, precautions and side-effects.

The Association of the British Pharmaceutical Industry maintains a code of practice, drawn up in consultation with the British Medical Association and the Department of Health, which imposes voluntary standards for marketing medical products. On advertising, the code forbids all-embracing claims and superlatives – the unqualified use of words like better, stronger and safe are not allowed. Drug company advertising is also controlled by law under the Medicine (Advertising to Medical and Dental Practitioners) Regulations.

Advertising is not, however, the only way in which pharmaceutical companies seek to interest doctors in their products. The relationship between doctors and the industry is a complex one. Much research on new drugs is carried out by the industry, which relies on the medical profession to evaluate its products in patients.

Once a drug was developed and marketed a new relationship came into existence – "a relationship in which companies in a competitive industry are trying to persuade the medical profession to prescribe their products while at the same time seeking the views of the profession about their efficacy and safety."

The overall conclusion of a study by the Royal College of Physicians into the relationship between doctors and the pharmaceutical industry was that a close relationship between doctors and the pharmaceutical industry was important for the treatment of patients and for the development and assessment of new drugs. But the overriding principle was that any benefit to doctors must leave their independence "manifestly unimpaired".

The BMA, in similar terms, tells its members that the medical profession has an obligation to assure the public that treatment offered is appropriate and is justified by its intrinsic merit, uninfluenced by commercial or financial interests.

It is in the practical interpretation of such sentiments that controversy sometimes arises. The amount of hospitality which drug company representatives are entitled to offer doctors – or doctors are entitled to encourage them to offer – can prove a delicate area.

Both ABPI and BMA take the view that entertainment should always be secondary to the main purpose of any meeting. The ABPI code of practice says hospitality should not exceed the level which recipients might normally adopt when paying for themselves and should not, for example, extend to doctors' wives or husbands.

Modest refreshment at a conference was reasonable; a lavish private dinner party in a restaurant was not, concluded the Royal College of Physicians.

The college's report – while stressing a belief that most physicians already abide by its guidelines – tells of a group of doctors who made it clear they were not prepared to watch a drug company's film unless this was accompanied by a meal in a restaurant of their choice.

In another case a group of physicians, all from a single National Health Service region, went to a meeting organised by a pharmaceutical company on a Mediterranean island. This, says the college, "could not have had the advantage of convenience".

The code of practice – acceptance of which is a condition of ABPI membership – imposes a range of specific restrictions on drug companies. Posters issued for display in doctors' surgeries, for example, must not include any message which might increase demand for a particular product.

Only around 70 complaints of alleged breaches of the code were made to the association last year, about half of which were upheld after investigation. Around half of the complaints came from companies which believed competitors' advertisements had overstepped the guidelines.

The pharmaceutical industry believes the low level of complaints from doctors demonstrates that companies approach the marketing of their products with responsibility.

Elisabeth Tacey on EC development

Over-the-counter drugs

WHEN British holidaymakers get the fabled holiday tummy in other countries of the European Community, they may be comforted to find, among the unfamiliar medicines on the local shop's shelves, one they recognise: Alka Seltzer, possibly with a different name but easily recognisable. And headache sufferers have about a 50:50 chance of finding Rennie. But if those are not suitable, the drugs will be foreign – or there might not be any.

Non-prescription medicines markets across the EC vary widely, according to Ms Gopa Mitra of the Proprietary Association of Great Britain, the trade body representing UK makers of over-the-counter drugs. The UK market is the most advanced in approach to self-medication.

The PAGB carried out a survey to find out what products were available in other EC countries. Alka Seltzer was the only brand available in all 12. Rennie appeared in about six countries. That was about it.

Generally, southern European countries such as Italy and Spain have a small non-prescription market. The problem is that although the state cannot afford to pay, nor can many of its poverty-stricken people.

This coupled with the impending single European market suggests there is a huge opportunity for non-prescription drug manufacturers. However, Ms Mitra is sceptical. There have been no trade barriers for such medicines since 1965, she says, but culture is not regulated by written rules.

In the UK and Ireland, self-medication is a developed market, with products sold specifically for allments regarded as minor and "self-limiting" – they only continue for a short period and would clear up without treatment, although perhaps more slowly. UK non-prescription medicines have strict codes on package labelling, and all material designed by PAGB members to be seen by the public is vetted by the association to ensure that it conforms. Ms Mitra says that 90 per cent of products on the market are vetted in this way.

Homeopathic medicines are not covered by the association, but all drugs have to be licensed by the Department of Health's Medicines Control Agency, set up last year, as conforming to standards of safety, efficacy and quality, and as not making any misleading or false claims. They go through the same testing procedure as prescription medicines before approval.

Non-prescription medicines
Market size by retail price, £m, 1981-89

	1984	1985	1986	1987	1988	1989
Cough remedies	38	45	47	47	50	53
Cold remedies	27	33	38	39	43	46
Sore throat remedies	46	55	58	61	63	67
Analgesics (eg aspirin)	85	95	103	110	118	129
Indigestion remedies	26	27	29	31	33	38
Stomach upset remedies	10	10	12	13	14	15
Laxatives	10	12	13	14	15	18
Skin/acne treatments	34	37	39	42	46	51
Eye care products	8	8.5	9	10	10	11
Hay fever treatments*					6.5	10
Total OTC market	400	450	486	518	560	605

*Figures before 1988 considered too small for inclusion

Source: Proprietary Association of Great Britain

In the more fledgling continental markets, however, the drugs for self-medication have simply been taken off the list as needing a prescription, and are sold in the same plain packs as prescription drugs, with a separate leaflet that tells the patient what the drug contains, what the drug is meant to be used for and directions for safe use, and warnings about adverse side-effects such as drowsiness, dangers of mixing the medicine with others, and storage instructions. In the UK, all this information is on the pack, regarded as a safer practice since leaflets can be lost and the medicines are likely to be taken by more than one person.

The PAGB is dismayed to find that the European Commission draft directive on consumer information is advocating the continental system of separate leaflet and plain pack, rather than the UK and Irish method. The idea is to have a "Euro-pack", suitable for every country, and a leaflet easily printed in several languages. The PAGB, the Consumers' Association and its European counterpart are lobbying hard to get this changed on the grounds that the UK system is safer, says Ms Mitra. Anyway, she argues, the idea that the same drugs will be sold throughout the Community is a false one: "They would have to create a Euro-consumer."

Looking forward to the 1992 single market, draft directives plan for over-the-counter drugs to be licensed by the national authority of the host country and that licence to be recognised in other countries, according to the mutual recognition principle. But as Ms Mitra says, mutual recognition is not successful now, as national interests take over from the considerations of safety, efficacy and quality of the medicine.

So the PAGB has suggested that, as most non-prescription medicines contain a core of 20 or so compounds, these should be listed in a European summary of product characteristics, whose company data is assessed by independent experts and its uses for self-medication agreed. "Anything that varies from that would go into the full licensing procedure," says Ms Mitra. "We mentioned it to the EC and they liked the sound of it." More work is necessary to consider the proposal.

But if the continental markets seem ripe for growth, the UK seems to be stable. The PAGB has only collated figures in terms of retail prices. Stripping inflation out (see table), the overall trend appears flat, with some remedies in decline.

The picture may reflect moves towards more healthy diets and growing disillusionment with medicines – "people are not rushing to that pill bottle", says Ms Mitra – and a move away from medication to look more at people's lifestyle and environment. There has also been a shift towards "natural" or homeopathic medicines, which now account for £90m a year of the £2bn pharmaceutical industry.

TELEVISION

Nothing to be blasé about

Are we being spoiled? Now that terrestrial television is pumping out four channels of mostly original material 18 hours a day, 52 weeks a year, are we becoming blasé and jaded, and almost impossible to please? The questions are prompted by the appearance in the last few days of three new drama serials – *Medics* and *Die Kinder* on Wednesdays on ITV and BBC2 respectively, and *House Of Cards* on BBC1 on Sundays – and the feeling that although all three are clearly expensive and made with the high level of professionalism we have come to expect, and each has its strengths, they also seem remarkably familiar and not awfully compelling.

Set your drama in a hospital and you will, obviously, trigger off a whole sequence of echoes going back to *Emergency Ward 10* in the 1950s, and *Ben Casey* and *Dr Kildare* in the early '60s, and coming forwards via *General Hospital* to *St Elsewhere*. Broadly speaking, television fashion has moved from the glitzy and romantic, with the white coat serving mainly to set off the square jaw, to the starkly realistic. In *St Elsewhere* we have had everything from suicide to sex in the mortuary.

However, the producer of *Medics*, Gub Neal, claims that his series "provides a very irreverent view of an institutionalised profession" and yet "it's not like any other TV hospital drama; it avoids the stark realities and presents a rather more romanticised view of hospital life – it's a celebration of those launching into the medical profession". No doubt it all depends upon how you define "romantic", but this claim seems interesting when you remember the bonk rate in the opening episode. Moreover, those of us who dislike such sights as a murder victim with a cut throat and blood all over the bed might have wished there was rather more truth in that claim about avoiding stark realities.

Speaking as a former hospital porter I would say that the view of sexual activity in hospitals taken here by writer Roy *Mitchell* was pretty accurate: among doctors and nurses there seems to be something about the proximity of death, familiarity with the human body, and the number of beds around (not to mention large linen cupboards) which leads to a rabbit-like level of activity. But the belief that television has not taken this approach before is mistaken. The two-part BBC production, *The Houseman's Tale* in 1987 presented a decidedly similar picture.

There is no one-word description such as "medical" to describe *Die Kinder*, yet it brings to mind even more recent series than *Medics*. The story begins with a mother waiting at a school playground for her daughter to appear, then going inside to look, reappearing worried with no child, rushing to find her son elsewhere, and being told that the father has already picked up both boy and girl. Utter consternation from the mother: the father is of another nationality and has presumably taken *them* abroad. Where have we seen this precise sequence before? In ITV's serial *Stolen*, shown in January. On that occasion the father was Asian and he took his children back to his homeland; in *Die Kinder* the father does the same, but this time the country is Germany.

Consider these phrases from a plot summary: "...a working detective at the heart of things...policemen caught up in that most contentious area where law enforcement coalesces with the world of politics...a thriller set in the world of political power play...alone against an unfathomable system...figures out of the woodwork of covert operations". It was written by Michael Wearing, producer of *Die Kinder*, and applies well enough to this present drama yet he was actually describing his previous (and tremendously impressive) serial *Edge Of Darkness*. What is more, *Die Kinder* is concerned with the way in which the time-bombs of 1960s' idealism may explode in the '80s: exactly the concern of the recent Channel 4 drama serial *Centrepoint*.

Once the output of television reaches a certain level, some similarities between plots and sub-plots are doubtless inevitable, and it could even be argued that repetition is likely *long* before that: Shakespeare and Marlowe and their contemporaries, Wycherley and Congreve and theirs, Coward and Rattigan and theirs, prove that in any age plots and preoccupations will tend to be shared, and in no other age has there been any attempt to provide the sheer quantity which is delivered by television today.

Furthermore, throughout all the history of drama, actors and actresses have come before their audiences in many different parts, so it would seem silly now to start complaining that – for example – we seem to have seen rather a lot of Miranda Richardson, who stars as the mother in *Die Kinder*. She was also the weirdo wife in *After Pilkington*, a splendidly capricious Elizabth I in *Blackadder*, Ruth Ellis in *Dance With A Stranger*, and more besides. We should, surely, celebrate the great strengths of the British acting profession. And yet, and yet...

However good at it he may be (and he is outstandingly good) does it not seem just a little tedious to be watching Ian Richardson playing yet another devious, scheming, smoothie with a manipulative wife, as he is in *House Of Cards*? It is only a matter of weeks since he was playing the Euro politician Spearpoint, a suave schemer with a manipulative wife, in Malcolm Bradbury's *The Gravy Train* on Channel 4. In *Porterhouse Blue* he was Sir Godber Evans, the devious gentlemanly academic with a fine line in scheming (yes, yes, and a manipulative wife) and so the line stretches out, back to *Private Schulz* and beyond.

As for *House Of Cards* itself – an adaptation by Andrew (*Very Peculiar Practice*) Davies of the book about political shenanigans in a right wing British administration by former Tory PR man Michael Dobbs – the sets and locations used by producer Ken Riddington and director Paul Seed are superb: we might really be in the Palace of Westminster and in Smith Square...but why does it all feel *quite* so familiar? There were, it is true, those episodes in *Campaign*, the series about a trendy advertising agency which got itself an account with a political party, and some of that looked remarkably like the ad-agency sub-plot here (Dobbs worked for Saatchi and Saatchi).

Yet the main reason for the sense of familiarity is surely the memory of Channel 4's 1988 drama serial *A Very British Coup*. Although that was about a Labour government, the trappings were all very similar: the election night parties, the chamber of the House, the activities in the division bell area, and above all the incessant hints of vicious intrigue. The chief difference is that *House Of Cards* is wickedly funny and uses a number of rather unusual conventions such as the confidential Shakespearian aside. It is, I suspect, the humour which will ensure that *House Of Cards* will be the most memorable of these three dramas.

But what are the answers to the questions with which we began: are we becoming blasé, and jaded, and impossible to please? Some would say yes, others would say it is an occupational hazard of being a professional critic, but I would say no. Frequent experience on awards juries has convinced me that high quality sticks out like an oak tree in a cornfield: you cannot miss it, nor confuse it with that which surrounds it.

The difficulty with works such as *Medics*, *Die Kinder* and *House Of Cards* may be precisely the fact that they have been created as part of a seamless web of heavily promoted and highly competitive "product". It is not that they have been tainted by being commissioned for hefty fees: many of the world's greatest artistic creations from Shakespeare's plays to Mozart's symphonies were churned out for the money. Perhaps the trouble is that it now takes a work of truly extraordinary originality and brilliance to withstand attempts to press every series into a high-rating mould, survive the marketing effort that is put behind everything on television, and reach us as a recognisable work of individual originality.

Christopher Dunkley

The 'Medics': funny goings on, but none the worse for that

New Gruber concerto

QUEEN ELIZABETH HALL

Given a programme that tested their mettle in all sorts of ways, the London Sinfonietta were in superlative form on Monday. Doubtless that had something to do with their conductor Lothar Zagrosek, too, whose dramatic grip was unfailing (vital for the musically weaker stuff) and his insights remarkable – Webern's op. 10 Five Pieces luminously realised, his severe Concerto op. 24 rendered with acute lyrical subtlety.

The Sinfonietta players dazzled in Donatoni's *Cloches*, which kept them clangorously busy – long successive stretches of repeated-notes, racing scales, torrents of trills – without suggesting for a moment that anything much else was going on. We had a contrasted pair of recent Xenakis things: *Echange* proved to be one of his picturesque ethnic studies, toughly evocative with its shrill reeds and its borborygmic bass clarinet (Timothy Lines displayed breathtaking stamina), and *Jalons* in his more usual pugnacious vein, and more than usually varied. If you can set aside any idea that pitch-relations (as in themes or harmonies) should play a significant role in music, Xenakis's command of sound-densities, raw colours and kinds of attack is stonily impressive.

The heart of the concert lay, however, in H.K. Gruber's Cello Concerto, written last year for Yo-Yo Ma but here given its U.K. première – superbly – by Christopher van Kampen. It *sings*, continuously, though rarely in the old familiar ways. There is a strong sense that some very good pop song is at the bottom of it (as becomes explicit at the end of his Violin Concerto no. 1), but if so it is perpetually, mischievously refracted. Gruber's trick of letting musical ideas seem to vanish suddenly in puffs of smoke, only to be found going blithely on somewhere else, has never been so brilliantly developed.

In fact the orchestra itself seems a white witch's simmering cauldron of ideas, with sudden bright eruptions amid the generally ravishing sound, not just Gruber's beloved vibes and dance-percussion, nor his glowing grids of soft strings, but a sound with an uncanny depth that permits several distinct events at once to proceed in perfect lucidity – and *never* hiding the solo voice. The chamber-orchestration is *masterly*; Gruber used, after all, to play bass in the ensemble Die Reihe.

Yet there is a rigorous, cunningly disguised economy of material, and Gruber's unmistakable way with diatonic harmony, as if viewing it from a sceptical but affectionate distance. Suffused with wit and sentiment though it is, this is seriously modern music.

David Murray

Il barbiere di Siviglia

COVENT GARDEN

The second deal of this season's Royal Opera *Barber* revival, with an entirely new set of principals, seems by all accounts disastrously inferior to the first. On Monday the comedy was lamed by the gruesome miscasting of Basilio (a Russian bass who turns the Italian language into one of the rarer Slavonic dialects) and Bartolo, and by an insufficiency of rehearsal that was everywhere apparent – *Gabriele Ferro, who on the* right night is a Rossini conductor of excellent style, seemed in Act 1 barely able to hold pit and stage together (ensemble improved in Act 2).

This sorry performance – is anything in opera more delightful than a scintillating *Barber*, or more tedious than a soggy one? – would merit a veil of charitable silence were it not for the presence of three fluent, attractive leading performers, who between them managed to save the evening from abject disgrace. Vladimir Chernov, the Kirov baritone who first sang in the house during the Leningrad company's 1987 London visit, could well be a new Royal Opera star. He is handsome, arrogant, light on his toes, as every good Figaro should be; the voice is not just of first-rate quality, beautifully full-bodied and forward-thrusting, brighter in timbre than his Russian rivals Leiferkus and Hvorostovsky, but moves in an idiomatically *Italianate* way – *Mr Chernov* was schooled in Italy, to evident and impressive effect. In such a performance he could do little more than go through the motions, but at least they were never less than vital ones.

Della Jones, long ignored by Covent Garden while manifestly inferior Rossini mezzos occupied its stage, was offered her first Royal Opera Rosina at the last minute (Edita Gruberova, the original casting, has 'flu). She was not at her freshest or most communicative in the first act, though even there the sizzle and sparkle of her technique pierced the prevailing torpor every now and then; the lesson scene combined delicious virtuosity with a smile on the words and facial expression previously missing, and from there on this was the Jones Rosina just as in the past – spicy, witty, warm.

Justin Lavender, the young English Almaviva, needs to *absorb some of her command* of style – he trundles through the florid passages, and his moulding of the melodies, though decent enough, lacks seductive charm. But the raw material (personable stage presence, high tenor of appealing, full-grained character) is distinctly promising. He deserves a more flattering wig and makeup – and, in the future, an altogether happier return engagement.

Max Loppert

Swan Lake

SADLER'S WELLS

The crew of the *Marie Celeste* disappeared, of course, in search of a production of *Swan Lake*. Crop circles are probably caused by little green men on a similar quest. I sometimes think that there are no aberrations of human behaviour that cannot be explained by the public's insatiable desire for this stalest of theatrical pleasures. And here it is again this week *in Rosebery Avenue, in* the production by the Moscow Classical Ballet that we first saw in 1988 on the temporary but spacious stage built in the Islington Business Design Centre.

Two years on, it has plainly done yeoman service, and the company moves through its paces with an unsurprised and decent efficiency. The challenge of the present season is to fit as much as is possible of the design (by Tim Goodchild: this is an Anglo-Soviet enterprise) *and the dance onto the* exiguous Wells stage. The result looks at times like the cabin on ship-board into which the Marx Brothers introduced everything except the ship itself. There is a good deal of classical pussy-footing, steps taken small, and jumps reined in as if they had to be rescued from the orchestra pit.

None of which would matter were there any perceptible dramatic life in the leading roles. Both Vera Timashova and Alexander Gorbatsevich are conscientious performers, but the emotional and physical tension which might make poetry from this prosey staging is *nowhere apparent. They go* through the motions of love and hapless passion, and a high-romantic finale in which Odette, Siegfried and von Rothbart all lie dead at curtain fall, as if numbed by repetition of a routine too familiar now to touch them. The staging is thus dead at its heart, and the swan maidens who frame this non-drama have a lightly sedated air, seeming impeccably precise in style and several removes from the task in hand. It is *Swan Lake* with a dash of *novocaine*.

Yet for the happy public there are the rewards of a presentation unadventurous but clear, rich in flashy costuming, with Arthurian outfits for the court, and a ballroom so becandled and dominated by a Madonna and Child that it looks like a high altar. The score is thinly played, but conducted with finesse by Vladimir Rylov, who merits better of his musicians. And there are two male dancers to lift the spirits. The young Vladimir Malakhov was the hero of the earlier London showing. He remains grandly expansive in the first act pas de trois and *the Neapolitan dance, with fine* line, and a large horizon to his dancing so that we follow his movement as if it reached out far beyond the stage. Ilgiz Galimullin was also an ebullient and admirable dancer two years ago, and though still trapped in the role of the Jester (ballet's equivalent to Broadmoor) he moves with such buoyant energy, and with such precision to his bravura, that we rejoice in his presence. For the rest there are cross-bows, an evil enchanter,a *stretch of water that could* be Windermere, and lots of swans. It may be heretical, but I would welcome the appearance of Edd the Duck on the lake.

Clement Crisp

Peaches

LYRIC STUDIO, HAMMERSMITH

The setting is 16th century Venice, where the illiterate are damned as vagrants and the literate as heretics. All the rest, if Elisabeth Bond is to be believed, are artists or degenerates. The cardinal is a degenerate, who buys up art to save his immortal soul from the syphilis that *is devouring his mortal* remains. Benvenuto is the artist he hires to magnify his name.

The overriding impression of the curiously titled *Peaches* is of squalor: of *moral corruption* mirrored in filth of costuming and setting. At no point does Bond convey the magnificent opulence that was so prized by the Venetian patrons, and which was their gift to posterity. She would no doubt argue that she is not attempting to paint an accurate historical picture, but using history as a peg for a more abstract reflection on the morality of art.

The result, though, is to deny her play of any of the particularity that might raise it above the level of lazy truism. In order to extrapolate from a culture, one must understand its endeavour, and that is precisely where this piece falls down. There is a strong sense that the writer has picked on Venice for want of any better vehicle, just as she has picked on the fashionable subject of art patronage for want of any better subject.

The impression that it has been only cursorily researched resurfaces in its dealings with religious schism, which is represented through the person of Sir *Robert Witton, an English protestant:* there is no sense of the religious or political background to his heresy. This weakness is reflected in the characterisation, which veers from blatant caricature to listless under-performance. Jane Belshaw, so good in Bond's last play, *Farrowland*, is wasted here as a one-dimensional serving sloven, while Dale Savage, as the artist Benvenuto, is denied a properly anatomised development from starving hack to craftsman so principled as to be prepared to die for it. One minute he is painting his pox-riddled mistress (a gutsy Tina Jones) as the Madonna, and the next he is refusing to depict the apotheosis of the cardinal.

a Peter Warde's strikingly ugly production for Blackburn-based Raw Cotton, like the play, ends up going *nowhere in particular.*

Claire Armitstead

Our Country's Good

SWAN THEATRE, WORCESTER

The Swan, under Artistic Director Pat Trueman (a lady Pat), shows amazing initiative for a 350-seat house in a regional city rather poor in its transport communications. This play by Timberlake Wertenbaker, winner of the Olivier Play of the Year Award in 1988, is *adapted from Thomas* Keneally's *novel The Playmaker*, which tells of a performance by Botany Bay convicts of Farquhar's *The Recruiting Officer* in 1778-9.

Farquhar's play has itself just been done at the Swan, with many of the same company. Earlier this season there was a good new adaptation of *Tom Jones*, of which I wrote here with enthusiasm.

Miss Wertenbaker writes in brief scenes as if for television. Before drama is even thought of, we are shown the state of the prisoners aboard the first of the convict fleets, then their dismay at what is still prison to them, in a dispiritingly unsympathetic land, chillingly summoned up by Gayle Friend's design, a plain, straight sloping stage set askew against a backdrop of distant eucalyptus trees.

We see too the officers of the transport fleet, concerned mostly with punishment (the play begins with an offstage lashing). Only Captain Philip, appointed Governor-in-chief (Kim Durham), *shows humanity among the* senior officers, who are led in brutality by Marine Major Ross (Philip Dunbar). It is a second-lieutenant, Ralph Clark (Paul Clarkson), who hits on the idea of *distracting the convicts by watching,* and even acting, a play.

He is a humane young man, and his acting company, few of them literate, are more concerned with their own problems than Farquhar's. But we see the slow progress of rehearsal, with such problems as playing in shackles, and the death sentence on Liz Morden (Helen Pearson), unwillingly cast as Sibylla, on a false charge of theft. Woven into the story are such extraneous matters as Midshipman Brewer's fear of ghosts and the reaction of the aborigines to the new phenomenon of the convict settlers.

It is as moving as it is interesting, and excitingly performed under Miss Trueman's direction, with consistently good playing by a ten-strong company, each with more than one part. Worcester is very lucky with its theatre.

B.A. Young

ARTS GUIDE

November 16-22

THEATRE and OPERA

London

Aspects of Love (Prince of Wales). Andrew Lloyd Webber's latest is an intimate chamber operetta derived from David Garnett's 1955 novella. *Musically* interesting and well directed by Trevor Nunn. A probable, but unspectacular, hit (839 5972).
Absurd Person Singular (Whitehall). Revival of early Ayckbourn comedy, *directed by the master* himself, about three couples at Christmas in three kitchens over three years. Moira Redmond, Richard Kane and Lavinia Bertram on fine form in a production which confirms *Ayckbourn's* early bleakness (071 867 1119). Extended until January
Man of the Moment (Globe). Nigel Planer and Gareth Hunt in another Alan Ayckbourn play, this time about media manipulation (437 3667).
Into The Woods (Phoenix) Julia Mckenzie shines as the witch in Stephen Sondheim's compen*dium of fairy* tales. The title song is more memorable than a storyline that descends into recrimination and chaos as the characters' dreams turn sour (867 1004).
Cats (New London). The formula of T.S Elliott words, *Lloyd* Webber music and feline dance has made this Britain's longest running musical (405 0072).
Royal Opera. Covent Garden: new production by Adolf Dresen of *Fidelio* is conducted by Christoph von Dohnanyi, and has Gabriela Benackova, Jan Blinkhof, Monte Pederson, and Robert Lloyd in leading roles. Further performances of the *Barbiere di Siviglia* revival, conducted by Gabriele Ferro, with the second of two interesting casts: Edita Gruberova, Justin Lavender, Vladimir Chernov, Eric Garrett, and Alexander Morozov.
English National Opera, Coliseum: *Cosi fan tutte*, in John Cox's stylish 1980 production, returns with a new cast, led by Rita Cullis and Glenn Winslade, and Peter Robinson as conductor. Further performances of the new double bill – Delius's *Fennimore and Gerda*, Puccini's *Gianni Schicchi* – conducted by Charles Mackerras and produced by Julia Hollander.

Paris

Bastille Opera. The season opens with Verdi's *Otello* conducted by Myung-Whun Chung with Placido Domingo in the title role for the first five performances and with Renato Bruson as Iago and Kallen Esperian as Desdemona (40011616).

Brussels

Théâtre Royal de la Monnaie. The Monnaie Opera in Hans Zender's *Stephen Climax.* Sylvain Cambreling conductor, staging by Peter Mussbach, sets by Paul Lerchbaumer.

Antwerp

Koninklijke Vlaamse Opera. The Royal Flanders Opera in Verdi's *Macbeth.* Rudolf Werthen conductor, staging by Gilbert Deflo with Josephine Barstow, Pablo Elvira, Gabor Andrasy, Huw Rhys-Evans.

Utrecht

Opera Forum with Janáček's *Cunning Little Vixen.* Jiri Pinkas conducting the Forum Philharmonic. Vredenburg (Wed).

Turin

Teatro Regio. The Regio celebrates its 250th anniversary with two versions of Verdi's *Don Carlos* (the French and the Italian) performed alternately between now and mid-December, both of which are conducted and produced by Gustav Kuhn, but with different casts. The Italian version will be the one given in Modena in 1886, which includes the first act in the forest of Fontainebleau: the French edition will also be the full-length version (8815241).

Venice

Teatro La Fenice. Alban Berg's *Lulu*, sung in German in a new production by Giorgio Marini, with 1930s sets and costumes by Laura Grisman. The excellent cast is led by Ann Panagulias, making her European debut in the title role, conducted by Yoram David (5210161).

Berlin

Opera. Hindemith's rarely played *Mathis der Mahler* will have its premiere this week, produced by Götz Friedrich with the title role sung by the Finnish singer Jorma Hynninen. Other performances include *Cosi fan tutte* with Angela Denning, Keith Lewis, Mariana Cioromila, Carol Malone; *Katja Kabanova* with Karan Armstrong, Patricia Johnson, Maria Teresa Reinoso and Camille Capasso. Also Hans Neuenfels' production of *Rigoletto.*

Hamburg

Opera. Jochen Kowalski *Lieder* recital, accompanied at the piano by Shelley Katz with songs by Mozart, Beethoven and Schubert. *Die Hochzeit des Figaro* in Johannes Schaaf's production opens this week. *The cast* is led by Lucio Gallo, Helen Kwon, Alan Titus, Ning Liang, Dieter Weller, with Eliahu Inbal making his debut as conductor in Hamburg. Also *Hänsel und Gretel* and the ballet *Peer Gynt.*

Cologne

Opera. *Rheingold*, *Walküre*, *Siegfried*, are part of the new ring cycle in a co-production with the Düsseldorf opera, produced by Kurt Horres and conducted by Hans Wallat. The cast includes renowned Wagner singers William Johns, Martin Finke, Robert Hale, Paul Frey, Nadine Secunde, Deborah Polaski, Anne Gjevang and Shirley Close.

Munich

Opera. *Nabucco* stars Julia Varady, Daphne Evangelatos, Wolfgang Brendel and Paata Burchuladze. *Palestrina* has Georgina von Benza, Marilyn Schmiege, Manfred Schenk and John Broecheler, in the main parts. *Un Ballo in Maschera* brings Sharon Sweet, Marjana Lipovsek, Alexandru Agasche and Wolfgang Rauch together. Further offered *La Sylphide*, choreographed by George Balanchine, Richard Strauss' *Die ägyptische Helena* with Gwyneth Jones and Spas Wenkoff.

New York

Falsettoland (Lucille Lortel). It will be known as the musical about Aids first hitting New York but it goes much further than that, showing the effect on a larger circle of people, who include a boy having a Bar Mitzvah and his parents, all three of them (924 8782).
Grand Hotel (Martin Beck). Tommy Tune, Broadway's present musical doctor, directs this remake of the Garbo film to shake the bones of this inert depiction of lives criss-crossing in an elegant, but somewhat random setting (246 0102).
Cats (Winter Garden). Still a sell-out, Trevor Nunn's production of T.S. Eliot's children's poetry set to music is visually startling and choreographically feline (239 6262).
Les Misérables (Broadway). The *magnificent spectacle of* Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama (239 6200).
Phantom of the Opera (Majestic). Stuffed with Maria Bjornson's gilded sets, Phantom rocks with Andrew Lloyd Webber's haunting melodies in this transfer from London (239 6200).
Gypsy (St James). This 30th anniversary production is a reminder of the heyday of the American musical with memorable tune after memorable tune, as well as a forceful plot about the ambitious stage mother who encourages her daughter even into burlesque (246 0102).
Metropolitan Opera: James Conlon conducts *Salome* with Hildegard Behrens, Helga Dernesch and Peter Kazaras in Nikolaus Lehnhoff's production. James Levine conducts Arvin Brown's production of *Porgy and Bess* with Priscilla Baskerville, Marvis Martin and Terry Cook. James Levine also conducts Piero Faggioni's production of *Un Ballo in Maschera* with Aprile Millo, Lucien Pavarotti and Juan Pons and (362 6000).

Washington

Washington Opera. The company's 35th season continues with Maria Ewing in the title role of *Salome*, in Sir Peter Hall's production conducted by Gerald Schwarz. Yoko Watanabe is Mimi and Antonio Ordonez is Rodolfo in Gian Carlo Menotti's production of *La Boheme* conducted by Vjekoslav Sutej. Opera House, Kennedy Center (416 7800).

Chicago

Lyric Opera. Donato Renzetti conducts Andrei Serban's new production of *Lucia di Lammermoor* with June Anderson as Lucia amd Alfryvo Kraus as Sir Edgar. Frank Galati directs Argento's *The Voyage of Edgar Allan Poe*, with libretto by Charles Nolte. Christopher Keene conducts. Civic Opera House (332 2244).

Tokyo

Kabuki: Performances at Kabuki-za centre around a name-taking ceremony for the actor Senjaku, who follows in his father's *footsteps to become Ganjiro III.* Both performances (11am, 4.30pm) are mixed programmes, combining drama, spectacle, song and dance. Earphone guide in English and English-language programme (541 3131).

SALEROOM

Connoisseurs chase Erasmus

A copy of the "Adagia" by Erasmus, with many revisions in the hand of the author, sold for £495,000 at Sotheby's yesterday to the Dutch dealer Nico Israel. The price was almost double the estimate and *confirmed that demand is still* strong for rare art objects of interest to connoisseurs rather than to speculators.

Autograph material by Erasmus, the great Dutch humanist of the early 16th century, is very rare. He gave this copy of the book, a collection of proverbs taken from classical texts, to his pupil Nicholas Cannius, with a detailed commentary. Many of the expressions recorded are still in common speech, such as "Cupboard love" and "God helps those who help themselves". But bargains were available in the sale of continental books and manuscripts. The London dealer Joseph secured a German Bible of around 1560, with woodcuts by the famed Virgil Solis, for £39,600, well below forecast.

So far this has been a good week for Sotheby's, following its hard time selling Impressionist and modern art in New York last week. In the same city on Monday it did well with *Pre Columbian art*, setting a new record for this market with the £128,361 paid for a pair of Mayan limestone zoomorphs, anthropomorphic sculptures representing deity figures, orginating from the Belize area between 250-450 AD.

Christie's continued yesterday with its mammoth sale of Japanese art. Monday brought in £485,914 with 24 per cent *unsold and a top price* of £50,600, below estimate, for a pair of six leaf screens with the typically eliptic Japanese inscription "More endearing is the fragrance than the colour, whose sleeves brushed the plum blossoms of my abode". On Tuesday the unsold percentage was slightly higher and the top price in the morning was the *£49,500 paid for a* Kakiemon bowl made around 1700.

But the highest prices for Japanese art this week were *not paid in the saleroom.* On Monday London dealers Eskenazi opened its exceptional sale of Japanese lacquer which it had bought, for around £3m, *from the American collector* Charles A Greenfield, and it sold the most important items within minutes, establishing records in the process. An early writing box of around 1600 was sold for £350,000, a record for Japanese lacquer. An inro, decorated with an elephant, sold for £150,000, a record for any inro. On the first day Eskenazi sold 85 of the 141 objects, mainly to non-Japanese collectors.

Antony Thorncroft

FINANCIAL TIMES

NUMBER ONE SOUTHWARK BRIDGE, LONDON SE1 9HL
Telephone: 071-873 3000 Telex: 922186 Fax: 071-407 5700

Wednesday November 21 1990

Now for the second round

MRS Margaret Thatcher's failure to defeat Mr Michael Heseltine in the first round of the Conservative party leadership contest owes something to the curious arithmetic of the ballot, but it is, nevertheless, a shattering blow to her own position. Of the 372 Tory members of parliament eligible to vote, 204 chose her, against 152 for Mr Heseltine. But because her winning margin was just below the 15 per cent required under the rules, the contest goes to a second ballot. Thus the result falls well short of an endorsement of an incumbent who has led the party for 15 years, 11 of them as prime minister. After scoring three general election victories in a row she must have expected better.

In consequence the political message of the first ballot cannot be ignored. For 168 Conservative members of parliament, 45 per cent of the potential electorate, either voted against the prime minister or abstained. The wider public has indicated, through a series of opinion polls, that it would be more likely to vote Tory in a general election if Mr Heseltine had become leader. Yesterday's result falls well short of a clear victory for the challenger but that is beside the point. Despite her immediate announcement, within a few minutes of the result being known, that she would fight on into the second ballot, there are serious doubts whether that decision is in the best interests of the party, the government, or the country.

Cabinet strains

The prime minister is by nature a fighter. Her instinct must be to stay until there is a defeat, according to the rules. Politically, that is difficult to sustain. It will also create enormous strains among her cabinet colleagues, several of whom have been quietly preparing against the eventuality that their own names might go forward in a second round contest. The prime minister has presumably calculated – with some reason although not with certainty – that if she herself stands none of her cabinet colleagues will oppose her.

If that were to be the case the only Conservatives of distinction who could join the lists on Thursday, Mr Heseltine apart, would be Sir Geoffrey Howe and Mr Norman Tebbit. No one else outside the government quite fits the bill. If they both joined there would be four runners. Such a large field would almost certainly force a third ballot. What, then, of a straight replay of the Thatcher-Heseltine ballot? With the same results under the second-round rules the prime minister would be the victor. There are two objections to this course of action. The first is that there might be a bandwagon effect for Mr Heseltine, who might do far better in the second ballot than the first. The second is that even if she won in such conditions it would be a pyrrhic victory.

Underlying fissures

The cabinet would naturally exercise its responsibilities, but it would not be able to maintain so much as an outward show of unity, even if the underlying fissures could be put into some semblance of good repair. The most outstanding of these fissures is over the British government's approach to the forthcoming inter-governmental conferences of the EC, which are due to begin in a few weeks' time. After Sir Geoffrey Howe's powerful attack on her attitude to the EC, and after two or three rounds of heavily-contested leadership elections, the prime minister's credibility would be severely damaged; the prospects of a Labour victory at the next election could only be enhanced.

It would be better to make a dignified exit now. This would be a momentous step, but it would allow some of her colleagues, such as the foreign secretary, Mr Douglas Hurd, and the chancellor of the exchequer, Mr John Major, to put their own names forward tomorrow. Of these two, Mr Hurd has more ministerial experience, but Mr Major is better equipped to build on the achievements of the Thatcher decade in the economic sphere. Either of these, or, indeed, Sir Geoffrey himself, would stand a better chance of unifying the party than would Mr Heseltine; any of the three would be preferable as a new prime minister.

Mr Rocard survives

IN THE absence of a solid parliamentary majority, the French socialist government led by Mr Michel Rocard has regularly seemed in danger of defeat, and never more so than on Monday night. For the first time in 2½ years, the conservative opposition parties were joined by the Communists in a vote of censure, and it only fell short of the statutory majority by a bare five votes. Nevertheless, the government has survived, and it lives on to fight another day.

This situation has the merits of its defects. There are obvious disadvantages in precarious parliamentary majorities, and one of them is that the government is liable to be too vulnerable to short-term negotiations with the political lobbies. The full extent of Mr Rocard's vulnerability is measured by the fact that he can no longer count on the reluctant support of the Communist party, which means that he is even more dependent on the ad hoc support of centrist MPs.

But these inconveniences are no more disadvantageous for the country, and they may be much less, than those of government by large and disciplined parliamentary majorities, which are out of all proportion to the real balance of opinion of the electorate.

Moreover, in the case of Mr Rocard, the imperatives of parliamentary management in present circumstances happen to coincide with his personal conviction, that government is better carried on by dialogue than by diktat. Mr Rocard wants to reform French society, and this is an ambition which can more easily be achieved by negotiation than by a cast-iron parliamentary majority.

Periodic crisis

It would be idle to pretend, however, that Monday's defeat of the opposition censure vote was just another method of securing a parliamentary majority, without any underlying significance for the political system. The government has avoided defeat, and on rational grounds it ought to be able to continue to govern for a considerable time to come. The trouble is that there is an undefinable sense that the French political machine is approaching one of its periodic crises.

Part of the problem is systemic, and is rooted in the constitution of the Fifth Republic which divides authority and legitimacy between the president and the prime minister. Ostensibly, the president should stand above the daily fray, deciding the strategic issues of defence and foreign policy, but leaving the government to handle the management of the economy. But the history of the Fifth Republic has been of a series of in-built conflicts between president and prime minister, and the conflicts have usually ended with the replacement of the prime minister.

Political cachet

Moreover, President Mitterrand has become increasingly reluctant to refrain from intervening in the affairs of management, and it is this which gives an extra foretaste of a crisis yet to come. The pretext for presidential interference is not merely that Mr Mitterrand is ultimately responsible for government, but that he can reassure Socialist party militants by conferring a more or less authentic political cachet on government policies which in reality are more centre-left than socialist.

Lately, however, President Mitterrand has been tending to go an irrational step further, by distancing himself from his government and his prime minister. In the case of the school protests, he has given the distasteful impression of egging on the students against his own government.

This is no doubt largely a question of personalities and personal ambitions: Mr Rocard stands a good chance of winning the presidency in five years' time, whereas President Mitterrand would prefer to be succeeded by Mr Laurent Fabius, speaker of the National Assembly. But the spectacle of discord apparently stirred up by the president is not a healthy phenomenon, especially at a moment when the economic situation is becoming more difficult, and the country is poised for historic decisions in the European context. Mr Rocard can probably survive for quite a while yet, and he deserves to be allowed to try.

Joe Rogaly says Mrs Thatcher has been severely wounded by the Tory election result

Things can never be the same again

It always pays to take a few steps back before assessing a great political crisis like the one that has now overtaken Britain's Conservative party. The morning after never looks quite like the night before. That aside, the main protagonist, Mrs Margaret Thatcher, is one of the world's most able survivors.

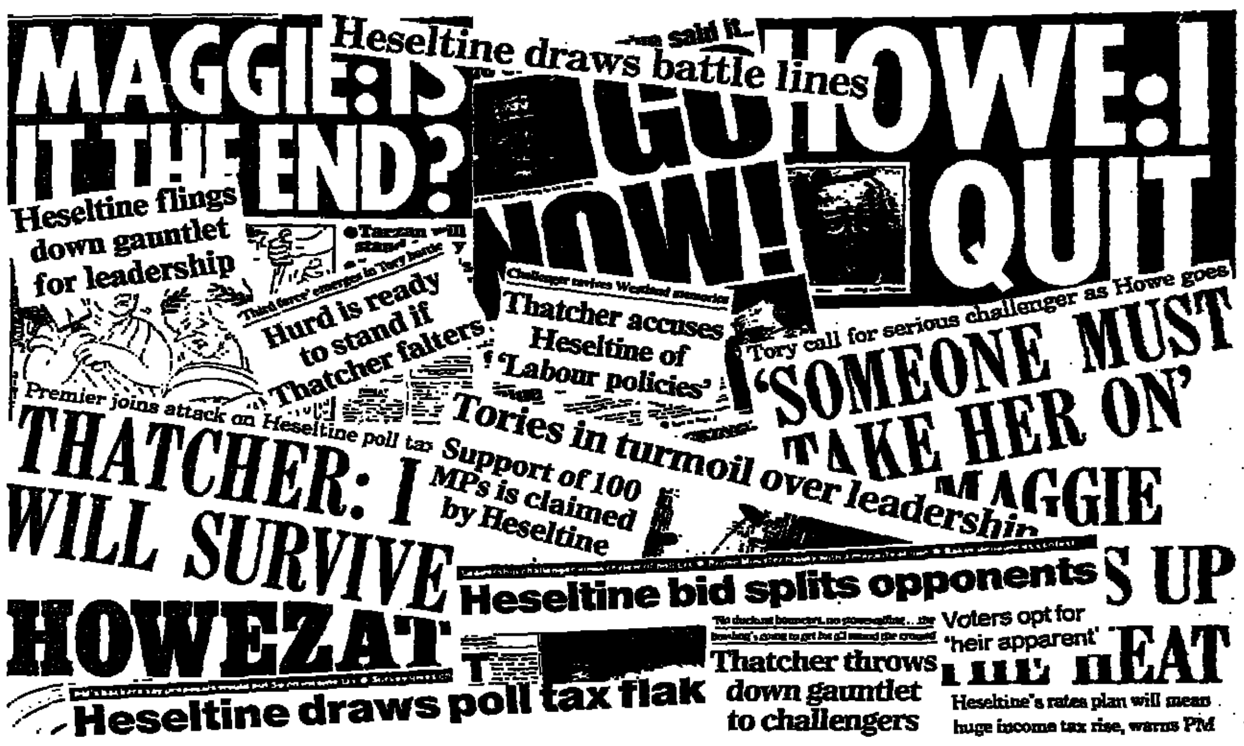
There is another little problem. One of the abiding clichés of politics is that "things can never be the same again". It is trotted out after every great Tory drama, and it is rarely true. During Mrs Margaret Thatcher's long career as Britain's prime minister this familiar refrain has been heard at every turn, from the early years when a huge herd of economists wrote to say that her policies would ruin the nation (they did not), through the Falklands war, the miners' strike, the Westland affair, ups in the opinion polls, downs in those same polls and the steady tramp, tramp of departing ministers out of the front door of No. 10 Downing Street to sit on the backbenches, or, in some cases to retire from politics.

In every case, the prime minister has made a convincing show of getting on with her job, losing herself in those horrendously long hours she puts in, flying from capital to capital, appearing in the Commons, sitting with her despatch boxes, receiving the world's distinguished persons. The great cliché has been proved wrong: things have not only been the same again, but more of the same, and doubly more.

But this time it hard to believe that that can be so. It is possible to construct a scenario in which Mrs Thatcher emerges victorious from either the second or a third round of voting by the 372 members of parliament who elect the Conservative leader, but it is very difficult indeed to believe in it, and very nearly impossible to believe that it could be the same great figure, commanding the same immense power, who would emerge at the end of the process.

First, that scenario. Within minutes of the first ballot result being announced, Mrs Thatcher was on the steps of the British ambassador's residence in Paris to declare that she had lost by only a whisker and would therefore allow her name to go forward for a second round. This lightening reaction may have been instinct, or it may have been pre-prepared. Either way it served two purposes.

First, it put her potential rivals in her own cabinet on notice that if any of them wished to challenge her in round two they would either have to break promises not to do so – which would be the case for Mr Douglas Hurd, the foreign secretary – or, in effect, resign from her cabinet – which applies to all of them including Mr John Major, the chancellor of the exchequer. Second, her instant-reaction announcement may have been intended to warn off any elder statesmen who may wish to persuade her to retire now and allow a broader-based contest to take place.



Within a very short while it became clear that she had some hope of success in achieving her first objective, since Mr Hurd and Mr Major pronounced that they were sticking bytheir undertaking not to fight against her. They would, indeed, support her in the second round. She seemed, however, to have failed in at least the second objective, as reports circulated that certain senior Conservatives had come forward with advice that she withdraw from the contest. One can imagine her close and immediate staff telling her, as Mr Norman Tebbit did in public, that if she polled as well in next Tuesday's ballot as she did yesterday she would, under the second round's rules, win by a simple majority. She might, in a repeat of her straight fight against Mr Heseltine, but it would be a wounded prime minister and a divided Conservative party that emerged from the process.

There is another possibility, one that is not her scenario at all. It is that the momentum built up by Mr Heseltine in yesterday's vote could enable him to peel away just 19 votes from the prime minister's tally. Add in the abstentions on his side and he has won. That is why there is likely to be pressure on her today to reconsider her statement of last night. She may calculate that her 204 votes are rock solid, that if others – Sir Geoffrey Howe, say – come forward as a stop-Heseltine candidate the effect will be to take votes from him, not her, but this is dangerous territory.

Those opinion polls are the problem. They keep indicating that Mrs Thatcher herself is an electoral liability. This may be for no more serious reason than that many voters are tired and want a change, but it remains a powerful factor for all that. The prime minister's supporters, those who are with her until the end whatever happens, argue that if there is a turnaround in the economy, interest rates come down, the mortgage rate is cut, and so on it will be possible to win a general election under her leadership.

If all the circumstances are right that might happen, given a fair wind. It would be more consonant with Mrs Thatcher's extraordinary career to date than any other outcome. It is, nevertheless, a very big "if". There is a harder truth staring every Conservative MP in the face. It is that at any given level of economic performance, good, bad or indifferent, their party is likely to fare better in a general election without Mrs Thatcher than with her – and, if the polls are right, best of all under Mr Heseltine.

There has been little time in which to pay much attention to the opposition in recent weeks, but there the Labour party sits, trying hard to smother its broad grins, watching the Conservatives tear themselves apart. It was a similar kind of internecine strife, admittedly taken to a further extreme, that kept Labour out of office for all of the 1980s.

For underneath the clash of personalities that led to the present Conservative leadership struggle lies a hard cutting edge of ideology. The Labour left spent many years destroying its own party because it preferred socialist purity to office. The devoted "Thatcherites" who have been indicating that they would rather have a Labour government than win again under Mr Heseltine are of the show the same tendency towards destructive fervour. These are partly new right ideologues, partly Bruges group doubters about the European Community, partly members driven by the negative, if understandable, impulse never to touch anything quite so interventionist as Mr Heseltine again.

For the moment the whys and wherefores of these internal Conservative arguments are of less significance than the fact that they take place with deep passion, and infuse normal panic at the prospect of electoral defeat with an abnormal degree of anger. There is little judgment, and not much dignity, in a party leader who has served for 15 years, 11 of them as prime minister, clinging to office amid such a furore. What can her leadership mean today if, under it, Conservatives have become so embittered about one another? It is for that reason that, weary as the words are, and wary as any of us must be in using them of so dogged a fighter, I conclude that, after last night, things can never be the same.

Malcolm Rutherford on how the parties eject their leaders

Nights of the long knives

Only one British prime minister since the Second World War has left office voluntarily. That was Mr Harold Wilson in April 1976, and so surprising was his departure that there were immediately suggestions that there must have been sinister reasons behind it. In fact, the now Lord Wilson seems to have decided – and to have promised his wife – that one day, enough would be enough. Even then he had to watch the exchange rate carefully to see that his going would have no undue effect on the pound.

All other prime ministers have either been voted out in a general election or forced out by their own party. The record suggests that when it comes to internal fights the Conservatives have always been more vicious than the Labour party. Clement Attlee became prime minister in 1945 at the age of 62, narrowly survived the general election of 1950, lost the general election the following year, but remained leader of his party until 1955.

On the Labour side again, Wilson is the only prime minister since the war (discounting Winston Churchill in 1945) to have been defeated in a general election – by Mr Edward Heath in 1970 – and to have returned to No 10 Downing Street some years later.

The Tories have never shown such tolerance. Their problem has been how to find a way of getting rid of a leader who had ceased to deliver the goods. It used to be said that they relied on the "customary processes of consultation" from which a suitable figure would "emerge". There was always an element of romantic myth in that. Such was Churchill's standing that there were no customary processes that could be applied to him. Nobody could stand up to him. The result was that he stayed too long and was frequently ill in office.

The longevity of the Churchill premiership also meant that Sir Anthony Eden was the wrong man for the job by the time he came to replace him. There is some evidence that Churchill thought that himself, but by then there was no satisfactory way of doing anything to stop it.

Eden was bundled off the stage after Suez to be succeeded by Harold Macmillan. Again there were some who thought at the time that he was not the right man – on Suez as chancellor of the exchequer he was accused of being "first in, first out", but while he turned the party's fortunes round and handsomely won the general election of 1959, the Conservatives loved him.

In the early 1960s, however, the Macmillan administration ran into difficulties remarkably similar to those of Mrs Thatcher's in recent months. The prime minister began to seem out of touch and perhaps out of date. Several times he considered resigning voluntarily, but went only when he suddenly became ill in October 1963. Like Mrs Thatcher, he seemed to have doubts about who was worthy to succeed him.

Perhaps for the first time, the "customary processes" went into action. It was also the last. Lord Home was plucked from the House of Lords to become prime minister as plain Sir Alec. It was the unhappiness of a number of senior Tories – notably Iain Macleod, who referred to the "magic circle" – at such a procedure that led to the party changing its method of choosing a leader.

The Tories did unexpectedly well under Sir Alec in the general election of 1964, suggesting that a switch of leadership at the last fence need not be unhelpful, but they still lost. Sir Alec resigned as leader a few months later.

Since then the leader has always been chosen by a ballot of Tory MPs. Thus the voting in the first ballot in 1965 was Mr Edward Heath 150, Mr Reginald Maudling 133 and Mr Enoch Powell 15. Mr Maudling could technically have forced a second ballot, but conceded defeat.

A possible defect in the system is that if the party leader is challenged, those closest to him may feel that it would be disloyal to do anything but support him in the first ballot. The loyalty limits the choice. Certainly that is how Mrs Thatcher defeated Mr Heath in 1975: the now Lord Whitelaw, perhaps Mr Heath's closest colleague, did not enter the contest until the second ballot when it was too late to stop Mrs Thatcher's momentum.

It may also be said that the system is more suitable for a party in opposition than in government. Yet to deny the possibility of a challenge would be to give the prime minister a remarkable amount of power and could condemn MPs to going down with a ship they believed to be sinking when a change of captain might be the salvation.

Mrs Thatcher may not have enjoyed the last few days, but one doubts if they have done democracy any harm. No one has taken to the streets and there has been no magic circle.

OBSERVER

Tussling in Germany

■ It might not have quite the drama of Thatcher vs Heseltine. But Germany is being treated to some eyebrow-raising amusement through the tussle between former Social Democrat (SPD) Chancellor Helmut Schmidt and Oskar Lafontaine, the SPD challenger for the chancellorship in next month's general elections.

Schmidt, who now has the gravitas of an elder statesmen and takes little interest in his party's affairs, has never forgiven Lafontaine for an irreverent jibe aimed at him eight years ago by his younger party colleague.

A man who takes seriously his task of representing the post-war generation, Lafontaine does not have much time for the somewhat overworked German virtues of obedience, discipline and orderliness.

In 1982 – three months before Schmidt's downfall as head of government – Lafontaine said in a magazine interview that the SPD Chancellor stood for values such as "duty" and "steadfastness". With such virtues, Lafontaine suggested, "you can also run a concentration camp."

It was thus not really surprising that Schmidt, in an interview at the weekend with the Dutch newspaper Algemeen Dagblad, said that Lafontaine would not win the December 2 election – and, what is more, that he did not deserve to. For Lafontaine, trailing heavily in the polls, this was one more dart in a campaign which has not been short of arrows.

The remark has stirred up a predictable SPD rumpus. Young Socialists from Lafontaine's homeland in the Saar have called for the ex-Chancellor's expulsion from the party, while SPD leaders in Bonn have sanctimoniously urged the party to line up in "solidarity" behind the candidate.

Schmidt was yesterday forced to issue a statement saying that the remark was due to the "excitement" of the election campaign. He also pointed out, as only an elder statesman can, that the comment was not meant for publication.

Sorry state

■ Eleven years of Thatcherism have not, apparently, persuaded Britain's well-off to be content with their lot.

A survey by American Express found that a quarter of Britons earning over £30,000 per annum are less than happy with their income and say they are only "coping". One in five said that they would not consider themselves rich unless they earned more than £500,000 a year.

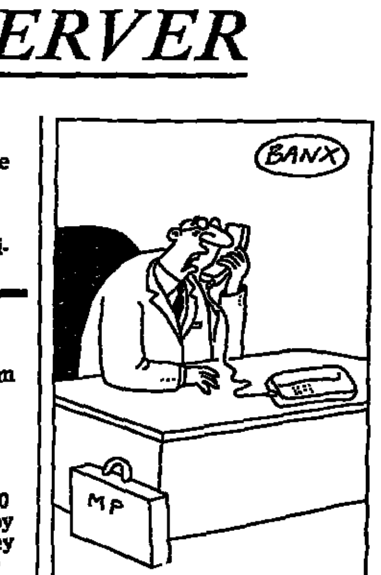
Despite their struggle to make ends meet, however, 40 per cent of those earning more than £25,000 a year have spent more than £300 on a single item of clothing. A quarter own a watch worth worth more than £500 and three quarters have recently drunk champagne.

Perhaps the reason for the lingering discontent can be found in one last statistic: six out of 10 had been forced to attend a working breakfast.

Have a sack

■ The humble haversack, I am told by people who keep an eye on sartorial trends, is becoming a key fashion accessory for the person-about-town in the 1990s. Already signs are starting to appear of increased use of the bags in place of that traditional business companion, the briefcase.

The rucksack is roomy enough to accommodate a substantial sandwich lunch, a gym kit or the odd bit of shopping as well as documents and books. But because it is carried on the back rather than in the hand, it leads to less physical strain than a briefcase. It is also better suited to walking and cycling, modes of transport becoming more relevant in today's car-jammed cities.



"You're a man of the world Sir Anthony; what's deselection like?"

Bags of this type – small, light and brightly coloured – are already in favour among schoolchildren and students. Now, some brave souls in the City of London are beginning to sport the items in place of leather cases.

Even at the Treasury, rarely perceived as a pace-setter in the world of fashion, the trend has become evident. The dashing Rachel Lomax, who takes over next month as the Treasury's deputy chief economic adviser, turned up at at a Commons select committee the other day with an elegant example of the genre in a particularly tasteful dark green.

No deals

■ It is not widely known that stockbrokers in Italy enjoy legal status as public officials. In the past, this has not always been enough to prevent members of this august class from indulging in the occasional bout of industrial action.

This week, Milan brokers have been taking their responsibilities seriously and presenting themselves for work at the stock exchange: but they have not actually been trading because their 600 executive dealers are on strike.

Though many of the brokers are sympathetic to the action, there were a few sweaty moments on the floor of the exchange when some decided that their public responsibility required them to try to launch trading in government bonds. The protests of picketing dealers soon put a stop to that.

The dealers are insisting that the parliament puts a rein on Rino Formica, the finance minister, whose attempts to levy a capital gains tax appear to have seriously affected trading volumes at the exchange and thus, say the dealers, their livelihoods.

Mr Formica is trying to make the brokers responsible for collecting the tax (imposed at a rate of 12.5 per cent or 20 per cent, depending on how long a stock has been held). The levy came into force by decree at the end of September, but so far it has the status of many another Italian tax – uncollected and, say the brokers, uncollectable.

Sales bonus

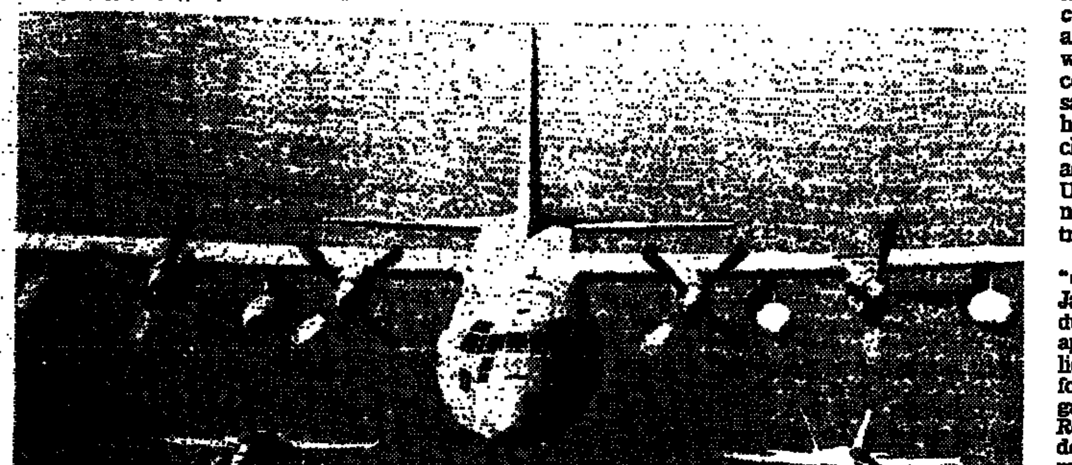
■ Back at Westminster, possibly the only Tory who could be said to be happy with the shenanigans over the Conservative Party leadership is Cheltenham MP Charles Irving, genial boss of the highly market-orientated Commons catering committee.

With the Commons tea-rooms at the epicentre of the debate leading up to yesterday's vote, he reports that the unusually high levels of patronage have lifted sales by 10 per cent.

هكذا من الأصل

How to pay for the global policeman

David Hale says the Gulf crisis is redefining America's international relations



US warplanes in the Gulf: America will continue to be a global policeman but must find better ways of sharing the burden of costs, especially with an ever-wealthier Japan

With or without war, the Gulf crisis of 1990 is likely to go into the history books as a watershed event in US international relations. In political and economic histories, it will be viewed as the precedent-setting exercise which turned the US military into an internationally-financed public good.

The crisis has brought into focus all the economic contradictions created by the western world's lingering dependence upon US military power. The Bush administration has deployed more than 300,000 troops in the Gulf region – a number over three times greater than all of America's allies combined, including Saudi Arabia. This ratio is not dissimilar to the one which prevailed during the Korean War 40 years ago despite the tremendous economic revival which has occurred in Europe and Japan during the intervening years.

But while the Gulf operation proves that the US is not a marginal power, it is unfolding against a backdrop of domestic economic crisis which could curtail US willingness to act as a global policeman. The 1991 federal deficit could exceed $300bn if the US economy experiences only a mild downturn.

Because of German unification costs and reduced investment outflows from Japan, the US Treasury must now compete for funds in a far more crowded global capital market than prevailed during the early Reagan years, when the US was the world economy's *de facto* borrower and spender of last resort.

As a result, there is a serious risk that Congress will create a global security vacuum by slashing US defence spending more quickly than other countries are prepared to increase their own. Even before the latest budget debacle, Congress was committed to reducing the defence share of gross national product from 7 per cent in the late 1980s to 3.5 per cent in the mid-1990s, or the lowest level since the 1930s.

With the cold war winding down, it is natural that Congress would seek large cuts in defence spending. But as events in the Gulf have shown, the new international political order will continue to require a policeman.

While Mr Gorbachev has made the Soviet Union appear less threatening, his country is also sliding into such severe economic anarchy that it is not difficult to construct scenarios in which the Soviet Union would experience political instability, if not civil war, on a scale that would create new security threats for Europe.

It should not be difficult for the US to obtain financial support for its Gulf campaign within the region. If oil prices hold at $35 per barrel, Saudi Arabia's export income will soar by $40-50bn. Recycling petrodollars into Pentagon dollars could finance the cost of the US deployment.

There will be no simple way of realigning global security relationships to match the changing shape of the world economy. Although its share of world GNP has fallen by half since the early 1950s, the US is still a superpower with strategic interests in the Gulf, the Pacific and continental Europe. Germany and Japan are now stable democracies with prosperous economies, but most of Asia is still afraid of Japanese rearmament while Germany's unification treaty prevents it from significantly expanding its armed forces.

As a result of these historical constraints, the western countries must develop a new formula for the sharing of *global responsibility* which provides some countries with non-military options for contributing to western security while assuring that America's fiscal crisis does not cause it to disarm too rapidly.

The first component of this new system should be the development of national burden-sharing indices for measuring each industrial country's contribution to a diverse mixture of international *public* goods, such as external defence expenditures, untied foreign aid, grants to multilateral economic development institutions, and world environmental protection. The purpose would be to establish macroeconomic targets for global responsibility-sharing and then permit countries to satisfy them in ways consistent with their historical experience.

Under such a system, the old superpowers, such as the US and Britain, would probably achieve most of their targets through foreign military expenditures or bilateral foreign aid while countries with smaller military forces, such as Japan, Sweden or Canada, would do it through development aid or contributions to multilateral organisations.

Because of America's highly integrated economic and military relationship with Japan, the second big component of the new western security system should be the development of a separate US-Japan bilateral burden-sharing programme specifically targeted on sustaining an effective US military presence in the Pacific and Indian Oceans after the Gulf crisis has passed.

Because of Japan's high rate of investment and productivity growth, its real GNP has grown from 25 per cent of America's in the mid-1960s to more than 50 per cent recently. If current trends persist, Japan's GNP will grow to levels equal to 65-70 per cent of America's by the early 21st century. Such a prolonged period of stagflationary US economic performance compared to much stronger growth in Japan could greatly intensify US perceptions that Japan is a "free rider" on the US security system unless the two countries develop a more extensive burden-sharing programme than now exists.

One useful model for such a relationship could be the "offset programme" which the US developed with Germany during the 1960s and under which Germany attempted to compensate the US for its European military spending through a variety of financial and commercial transactions. These included direct spending to upgrade US bases, purchases of US Treasury bonds at below market interest rates, preferential treatment of US defence contractors in weapons purchases for the German armed forces, and a promise by the Bundesbank to suspend dollar conversions into gold.

The economic objective of the programme – which was eventually dismantled after 1971 because of America's decision to abandon the Bretton Woods system – was to reverse the so-called dollar drain from the US to Germany by generating capital flows and commercial deals which would *offset the balance of payment* effects of US military outlays.

In many ways, the US already has a *de facto* "offset programme" with Japan. In 1987 and 1988, the Japanese government played a role in stabilising the US financial markets both through direct currency market intervention and the use of moral suasion with Tokyo's big insurance companies to discourage the sale of dollar securities. Japan has also traditionally purchased such a large share of its aerospace equipment from the US that the European Community is now complaining about trade discrimination.

But the informal and covert "offset programme" which Japan developed with the US during the late 1980s no longer appears adequate. The US public has given Japan no credit for the financial aid which it gave to the US during the final Reagan years because it was done through the back door rather than through a transparent programme comparable to Germany's in the 1960s. The easy monetary policy which Japan pursued to bolster the dollar after 1986 also helped to lay the groundwork for the recent boom and bust cycle in Japanese stock prices.

Finally, the US has not done a good job of developing long-term programmes for maximising the economic value of its defence industry. Although the US retains an overwhelming commercial dominance in the sector, Washington has been unsuccessful at developing an effective policy for managing technology transfer and scientific joint ventures with Japan.

Some Americans will question the morality of the US military assuming a more explicitly mercenary role than it has played in the past. Other countries also may demand that defence burden sharing be accompanied by joint decision making on the deployment of military forces. But in the 1990s there is no realistic alternative to the US continuing to play the role of global superpower.

As a result, the coming showdown in the Gulf between the eagle and the scorpion should mark the evolution of the US military from a national defence agency providing free western security into an internationally-financed police force.

The author is chief economist with Kemper Financial Services, Chicago

Peter Norman on statutes for a European Bank

A blueprint which could yet be scribbled on

The road to European economic and monetary union is lined with partial successes.

"Limited success" was the phrase used by Mr Helmut Schmidt, the former West German chancellor, to describe the December 1978 meeting of the European Council which agreed to start the European Monetary System without full British participation.

The phrase could be applied to last week's agreement among the European Community's 12 central bank governors on the draft statutes for the proposed European System of Central Banks (ESCB) and the European Central Bank that will manage monetary policy and the single currency if and when Emu is agreed.

Mr Karl Otto Pöhl, the Bundesbank president who chaired the EC central bankers' committee, has achieved some important objectives.

The principles underpinning the bank have won unanimous support. Domestic price stability should be its principal goal. It alone should be responsible for monetary policy in the EC. It and its officers should be independent of EC governments and institutions.

The bank's democratic legitimacy would be based on a treaty negotiated among elected governments and ratified by national parliaments. The system should have a two-tier, federal structure in which the national central banks would have operational rather than policy-making roles.

But Mr Pöhl failed elsewhere. He had hoped to present next month's Intergovernmental Conference of EC leaders – which will discuss Emu – with a seamless blueprint setting out the bank's functions and duties.

The idea was that the draft statutes, backed by the unanimous support of the EC's top central bankers, would be adopted swiftly by the IGC and incorporated as an integral part of the new EC treaty on Emu. In that way, the bank, if and when eventually agreed by EC governments, would be as independent and as committed to price stability as the Bundesbank. Its constitution would be immune from the compromises and horse-trading that are bound to mark progress between stage one of Emu and the achievement of the final goal of a single currency.

Instead, there are gaps and grey areas in the statutes which could give the politicians attending the IGC the opportunity to discuss and decide on important issues concerning the central bank. The fear haunting some of Europe's central bankers is that the statutes could become a political football, or at worst, unravel.

The bankers' final text has not been published. They agreed last week in Basle that the statutes would be submitted to EC economics and finance ministers in early December before being presented to EC leaders at the IGC. After their meeting, Mr Pöhl said only technical questions remained to be decided.

According to European monetary officials this is true in a strict sense. But some of the technical issues could become politically important. There are also fears that grey areas in the text could, in certain circumstances, undermine basic principles underpinning the statutes such as the primacy of price stability.

Governments have yet to get to grips with a threatened 'democratic deficit'

This latter consideration was highlighted by discussions over whether the European central bank should be able to act as a lender of last resort to safeguard Europe's financial system in times of crisis.

The Bundesbank has always been hostile to central banks assuming the role of lender of last resort. It does not supervise the German banking system. Its law greatly limits its capacity to bail out financial institutions in trouble.

This reflects an underlying fear in Germany of "moral hazard" in banking – the belief that explicit safety nets encourage imprudent practices – and concern that an obligation to support a financial institution or system with liquidity could be inflationary.

Other central banks have fewer reservations. The Bank of England, for example, is responsible for banking supervision and considers one of its duties to support London as a financial centre. It has intervened to prop up the financial system and institutions, as in the case of its rescue of Johnson Matthey Bankers in 1984.

At one point, the Bundesbank found itself in a minority of one on this issue. A compromise was agreed in which central banks would "participate as necessary" in formulating and carrying out actions relating to financial supervision and the stability of the financial system. For the Bundesbank this wording meant price stability would remain the primary goal of the ESCB while other central banks felt they would be able to act to safeguard the financial system in times of need. The resolution of any conflict between the two philosophies may have to wait until the ESCB is operating.

Doubts also remain over:

- How responsibilities should be shared between the European bank's six-strong executive board and the 18-strong council comprised of the board and the EC's 12 national central bank governors;
- The system's external policy vis-a-vis the dollar and yen and how far national foreign exchange reserves should be pooled; and
- The bank's capital and profits. The inability of the 12 EC central bankers to agree the size and their shares of the European bank's capital and how to distribute its income among member states could become a thorny political issue as central banking is normally very profitable.

In spite of these problems, central bankers who negotiated the statutes are confident that they will be the most comprehensive and coherent of all the plans and documents that will be presented to the IGC.

There has been far less progress on the non-monetary aspects of Emu while governments have yet to get to grips with the "democratic deficit" that is threatened in the EC if it moves rapidly towards Emu.

"The central bank is the only bit of the Emu wall that has been shaded in at all," said one official. Although the bank's statutes are far from perfect, their authors hope that they will survive the IGC to enjoy a success similar to that of the EMS over the past 11 years.

LETTERS

It is not enough just to put sanctions on Iraq

From Mr David Sawers.

Sir, Your editorial ("The options in the Gulf," November 16) demonstrated the problems which have arisen from the naivety which has influenced much western, and especially British, policy on this area. The three most dangerous examples of naivety are:

■ The belief that sanctions could produce an effect within a few months, although the impact on Iraq of being deprived of imports and of revenue from exports of oil may take up to a year to become serious;

■ The belief that Saddam Hussein is bluffing when he threatens to attack Israel if Iraq is attacked, and the consequential belief that a war to free Kuwait would be limited to the allies and Iraq. The political benefits to Saddam of involving Israel in any war are so obvious that he seems certain to do so.

■ The belief that the settlement of existing problems in the Middle East would be easier after a war with Iraq. If this war had involved western nations and Israel fighting Iraq, the prospects for any agreement would be reduced.

A realistic policy for western nations would be based on the long-term use of sanctions to weaken Iraq. The world can live without Iraqi oil, but the Iraqi economy would be ruined without the revenue from its oil. But this long-term economic pressure on Iraq should be balanced by pressure on Israel to come to the conference table: until Israel has settled with its neighbours and the Palestinians, Islamic strongmen like Saddam Hussein will appeal to the people of the Middle East.

David Sawers,
Crosby, 10 Seaview Avenue,
Angmering-on-Sea,
Littlehampton, West Sussex

Time to address inconsistencies in property companies' accounts

From Mr David Tillett.

Sir, I have just seen Mr David Kleeman's letter (October 17) about inconsistencies in the accounts of property companies.

I agree with much of what he says, and indeed Alan Milnes and I drew attention to these inconsistencies in the first edition (*third edition* to appear in 1991) of our book "Property Company Accounts" as long ago as 1978.

Mr Kleeman might also have mentioned an inconsistency which is as fundamental as the treatment of capitalised interest – namely whether or not *profits* on sales of investment properties are included in the profit available for dividend.

Moreover the variety of ways in which companies present their revenue and capital profits is, in itself, extremely confusing.

But how is this situation to be put right? Mr Kleeman assigns the task to the accounting profession, with the DTI to legislate if the accounting profession fails in its duty.

However he seems to ignore the fact that, following the implementation of the 1989 Companies Act, the accounting profession has lost direct control over the setting of accounting standards, which are now the responsibility of the Financial Reporting Council and Accounting Standards Board.

Under the previous arrangements, the Accounting Standards Committee, during its 20 year life, did not find time to give its attention to property companies and I personally would be surprised if the new regime were able to give it priority.

The other candidate for attacking the problem is the industry itself and in particular, the British Property Federation, which ably represents the industry.

About 10 years ago the BPF did indeed tackle this project – but failed to achieve consensus.

At a time when many companies will be entering a lull in their activities because of the state of the market, an opportunity for a second attempt would seem to present itself.

David Tillett,
BDO Binder Hamlyn,
20 Old Bailey, EC4

British industry has to move up-market if it is to survive

From Mr Roy Grantham.

Sir, The CBI's Quarterly Industrial Survey makes sombre reading.

The real test of the quality of British management will be how many companies survive the recession, or survive without serious damage, at a time when our competitors are positioning themselves to grow in the Europe of 1992.

You are right to acknowledge the serious damage done to British industry by the last recession under this government.

As the trade union movement and opposition parties have been pointing out for several years, the major and rising deficit on our manufacturing trade indicates there was a fundamental weakness in the 1980s arising from government policy.

With the enormous growth in education and training in countries like Korea and the rest of the Pacific Rim, the scope for Britain to continue to produce low value added items will be increasingly under threat.

The real challenge for British management in the recession that has been brought about by lax policies is to *decide to go up-market* and to produce higher value goods.

They are able to make full use of the willingness of the workforce to co-operate in restructuring companies; a willingness which has been so evident in this decade, when the sacrifices and co-operation of so many workforces have saved companies.

That will call for a careful design effort, including using many of the patents available from overseas, a skills audit to measure what skills and training are necessary to carry out work on higher quality products, and a sustained training programme to give to workers that extra skill and flexibility that such a programme will require.

The 1980s were marked by cuts in manufacturing and employment to get higher productivity but no widespread movement up-market.

The new decade has to start from a determination to move up-market if our industry is to survive.

Roy Grantham,
national officer, APEX,
Thorne House,
Buxley Ridge,
Claygate,
Esher, Surrey

A slip of the keyboard

From Mr Peter Jay.

Sir, "The core inflation rate is likely to fall far more than the headline rate and end up below it." (Lombard, November 19). Surely, some mistake?

Peter Jay,
39 Castlebar Road, W5

Samuel Brittan writes: I am grateful to Peter Jay for drawing attention to a slip of the keyboard. The sentence should of course have read: "The headline inflation rate is of course likely to fall far more than the core rate and end up below it."

DLR problems on the mend

From Mr Peter D. S. Dale.

Sir, Your article ("Delays on Docklands Railway rapped by Canary Wharf group," November 15) reported elements of the evidence given by me and my colleague, Michael Schabas, yesterday, before the House Select Committee on Transport – specifically, that the Docklands Light Railway is currently unreliable.

I do want to stress that Docklands Light Railway management now understands the causes of the unreliability, it has found solutions, and is in the process of implementing the solutions as quickly as possible.

Of course, we regret the delay in completing the upgrading of the line. But hundreds of millions are being spent, new cars and new signalling systems are on order, and performance will improve immeasurably over the next year.

We are not in the habit of crying over spilt milk. What is *important to us is this work,* presently under way, which assures the successful operation of the DLR next year.

Peter D.S. Dale,
Olympia and York
Canary Wharf

FINANCIAL TIMES
Wednesday November 21 1990

Rocard's victory somewhat lacking in glory

By George Graham in Paris

FRANCE'S national assembly is usually deserted on a Monday night, but this week its red velvet benches were packed. Not since 1962, when Mr Georges Pompidou was defeated, has a motion of no confidence stood such a good chance of toppling a government.

Only 284 of the assembly's 577 members, however, answered the alphabetical roll-call and filed up to drop their votes of censure into a green urn in the centre of the hall, leaving the opposition five votes short of the outright majority it needed to overthrow the government of Mr Michel Rocard, the prime minister.

The manner of the victory was not glorious: Mr Rocard made full use of the government's financial armlock on the economically fragile French colonies of the Caribbean and the Indian Ocean to make sure of the votes of their representatives.

It was hypocritical of the Gaullists, experienced practitioners of pork-barrel politics during their years in government, to complain about this. But the flagrant purchase of colonial votes will have done little to dissipate the smell of decadence which has beset all political parties over the past year.

Nevertheless, five clear votes represented enough of a margin for Mr Rocard to be able to claim a victory, rather than merely a narrow escape. Although he still does not have an absolute majority in parliament, it is equally clear that there is no alternative majority.

That should, his advisers hope, be enough to allow him to get on with governing.

Governing, on the other hand, presents its own problems.

When Mr Rocard promised the parliament blood, tears and, above all, sweat, he was certainly not exaggerating the tasks that lie before him.

The demonstrations of high school students appear to have faded in intensity in recent days, but the problems of the French educational system remain.

It is by no means clear that the emergency package of FFr4.5bn ($980m) promised last week will attack these problems at their roots.

Nor does the government appear to have an answer to the despair in depressed suburban housing estates, which led to violence in Vaulx-en-Velin, near Lyons, a month ago.

Public sector employees may be easier to handle than students, for they have acknowledged representatives and concrete demands, but satisfying their wage demands could prove far more expensive.

Talks yesterday between the unions and the civil service minister, Mr Michel Durafour, showed a wide gap between the government's proposal of a 1.3 per cent pay rise at the end of the year and the unions' demands of 3.4 per cent to keep up with inflation.

A few months further on, the government faces some even

Michel Rocard making a point during the censure debate

more difficult tests over subjects which everyone agrees must be treated but which will infallibly arouse stiff opposition from all sides: reorganisation of the state pension scheme – which, as Mr Rocard pointed out on Monday, will explode in 15 years if it is not reformed; and control of health spending by the social security system.

These problems all raise a question about Mr Rocard's determination to stick to the rigorous economic policy he and Mr Pierre Bérégovoy, the finance minister, have espoused – a policy which may prove difficult to sustain as economic activity slows in the wake of the Gulf crisis.

The prime minister restated on Monday his determination to stick to his economic guns.

"I cannot promise you a radiant and effortless future. I am not announcing a path strewn with lilies and rose petals. I can, on the other hand, guarantee maintained rigour if the slowdown in world growth is confirmed," he told parliament.

The school students' protests, however, opened an ominous crack in this determination. The budget overshoot resulting from the promises made to the students may be as little as FFr1bn-FFr2bn, yet it will infringe, for the first time, on the government's declared commitment of cutting its budget deficit by FFr10bn a year, from FFr110bn in 1988 to FFr80bn in 1991.

Coming after a FFr4.4bn aid package offered to livestock farmers this summer, in the face of violent protests, the money promised to the students has suggested to some commentators that, far from steering steadfastly with his eyes fixed on a horizon 10 years off, Mr Rocard's main navigational tools are the opinion polls and the level of noise from the latest street demonstration.

This judgment may be a little harsh, for Mr Rocard has begun a number of several substantial reforms, and has even completed some: the law on psychiatric internment and the government of the Pacific colony of New Caledonia, to mention only the most widely acclaimed.

The prime minister's parliamentary victory, if it demonstrates that there is no majority to overthrow him, does not demonstrate that he has a new majority to govern with, nor that he has overcome the hostility of his own Socialist party, many of whose members complain of his social democrat tendencies.

Mr Rocard's course appears likely to remain a slalom, not a straight line.

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Gatt impasse referred to leaders

By William Dullforce in Geneva

THE CRUCIAL issue of farm trade reform, which can make or break four years of talks on world trade liberalisation, has been referred to US and European heads of state.

US officials said yesterday that the impasse over agricultural trade could now be resolved only by talks between US president George Bush and the EC leaders, in particular French president François Mitterrand and chancellor Helmut Kohl of Germany.

Mr Bush raised the issue yesterday in bilateral meetings in Paris with European Community leaders.

Talks in Brussels on Monday between Mr Ray MacSharry, EC agriculture commissioner, and Mr Clayton Yeutter, US agriculture secretary, failed to produce any change in the conflicting positions of the two major trading powers.

US and EC leaders were attending the 34-nation European security summit in Paris.

An EC official in Geneva, the centre for the trade talks, acknowledged that "no change of substance" had occurred at the Brussels meeting.

Mr MacSharry and his aides had explained how the EC offer to cut internal farm subsidies by 30 per cent would also provide for improved access for imports to the EC market and for lower spending on export subsidies.

US officials agreed that positions had been clarified. "We are no longer talking past each other," one said.

But, they added, real negotiations had not taken place and could not get underway until the EC was prepared to make separate commitments to reductions in all three areas – internal farm supports, border protection and export subsidies.

Washington, together with the Cairns Group of the 14 farm-exporting nations, has been asking for cuts of 90 per cent in export subsidies and of 75 per cent in internal supports and border protection.

The EC Commission, which negotiates on trade matters on behalf of the 12 member states, has no mandate to make the kind of commitments sought by the US.

Despite the intervention of Mr Bush, it is now generally accepted that no solution to the core agricultural issue is likely before world trade ministers meet in Brussels on December 3 to conclude the Uruguay round of talks.

Mr Arthur Dunkel, director-general of the General Agreement on Tariffs and Trade, yesterday sent formal invitations to the ministers, thereby excluding any possibility of postponing the meeting. He has also said that no major political decisions affecting the results of the Round could be taken after December 7.

● Peter Riddell, US Editor, adds from Paris: US officials here confirmed that President Bush has been urging the need for compromise moves by the Europeans if agreement is to be reached next month over farm subsidies in the Uruguay Round of trade talks.

He has been making this general plea in his meetings with European heads of government attending the security summit in Paris.

There have been no detailed negotiations because key US trade officials are not present – they are either in Brussels or Washington.

US accused of escalating grain row

By Tim Dickson in Brussels

THE European Commission yesterday accused Washington of "bad timing" in its bid to escalate the smouldering trade row over US access to Spanish and Portuguese agricultural markets.

Brussels' riposte came after the US had given formal notification of its intention to retaliate against the Community by stepping up duties on a range of EC food and drink products from the beginning of next year. The products include sparkling wines, brandy liquors, gin, mineral waters and prepared vegetables.

Washington's move – which could involve levies of 200 per cent on $420m of European exports – represents a clear warning to the Community that compensation for lost Iberian grain markets in the wake of Spanish and Portuguese accession must continue beyond the expiry of a four-year agreement, which was signed in 1986.

The Community, meanwhile, has already made clear in a letter that it sees "no merit or justification" in extending the concessions for the space of another year.

Yesterday's statement from the European Commission was nevertheless surprisingly low key. It stressed Brussels' "regret" at the "unjustified" US action and lamented the fact that the existing agreement "provides an adequate means for dealing with the overall US concern about its exports to Spain and Portugal."

Conspicuously, there was no threat of counter-retaliation.

Community officials were keen to emphasise what they see as a "renewed willingness" on the part of Washington and the Community to resume serious negotiations over the wider issue of agricultural reform in international trade talks known as the Uruguay Round.

They therefore appeared reluctant to turn up the temperature on what in this context is seen as a relatively less important issue.

The problem goes back to the enlargement of the Community in the mid-1980s, and Washington's claim that before 1987 Spain was buying 4m-5m tonnes of grain from US suppliers.

Following fierce negotiations, a deal was signed in mid-1986 which allowed preferential purchases each year of 2m tonnes of maize and 300,000 tonnes of sorghum, subject only to Community monitoring of imported cereal substitutes.

Brussels said yesterday that the American action is "badly timed since the agreement stipulates clearly that a review of the situation between the US and the EC should take into account the outcome in agriculture of the Uruguay Round which is still under way."

Mr Ray MacSharry, the Community's agriculture commissioner, confirmed his willingness to continue consultations to "find a satisfactory outcome". He insisted that the EC had "strictly adhered" to the agreement.

Collor in offensive to bolster economy

By Christina Lamb in Rio de Janeiro

MR Fernando Collor de Mello, Brazil's president, has launched a political offensive to bolster understanding of his economic policies amid mounting criticism from business and the worst crisis between the executive and legislature since the president took office in March.

The offensive follows a series of embarrassing defeats for the government in Congress last week and the resignation of Mr Renan Calheiros, leader of the government in Congress.

Mr Collor will address the nation today to try to bolster the credibility of his government which is facing attacks from all sides.

Of four measures put before Congress last week, three were defeated, including presidential decrees to deregulate wheat trade and to end yearly bonuses for state pensioners. Voting on the fourth measure – a presidential veto to end the indexation of wages to inflation – was delayed because there was no quorum.

The government's economic team sees de-indexation as crucial to its fight against inflation and has been battling to pass an agreement through Congress since June.

The government's inability to control Congress was dealt a further blow with Mr Calheiros' decision to switch sides and oppose the government in protest at what he called "escalating immorality". Announcing his resignation, Mr Calheiros called Mr Collor, a personal friend, "a political primate", adding: "He is the main person responsible for the political isolation of the government".

Mr Calheiros is hoping to become governor of Alagoas, Mr Collor's home state. In a letter explaining his resignation, Mr Calheiros accused close associates of Mr Collor of corruption in the first round, in which 71,000 votes were found to have been tampered with in favour of his opponent, also a friend of the president.

Describing this as "the most scandalous electoral fraud in the history of our country", Mr Calheiros said: "The silence of Collor in this matter is an incentive to continue practices that we thought had been wiped out from national life."

Mr Jarbas Passarinho, justice minister, blamed the government defeats in Congress on the worsening economic situation. Business leaders are critical of the government for its failure to bring down inflation.

THE LEX COLUMN

Looking to life after Thatcher

For all the undeniable drama of last night's vote, it is not quite clear how far the markets need excite themselves. The equity market will look to sterling, that being the key to whether or not interest rates can come down. And investors in sterling, whether UK or foreign-based, are mainly interested in who runs the country, not who runs the Tories. If the second ballot puts Mrs Thatcher back in charge with a workable majority, well and good. If it instals a rival regarded by the polls as more likely to beat Labour in the next election, so much the better.

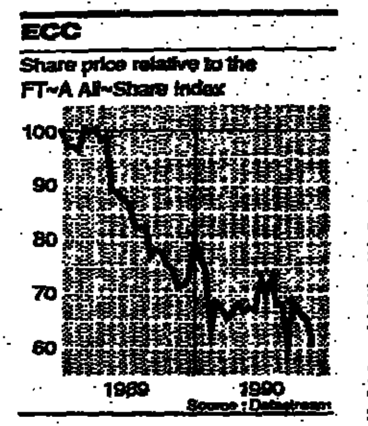
That is not to deny that sterling may be in for a rocky week or two. But just as the big issue in the leadership election is commitment to Europe, so the issue for sterling is commitment to the ERM. It has been suggested that a new Tory leader might seize the opportunity to devalue sterling within the system. The obvious objection is that this would be an odd start for any new leader running on a European ticket, as the chief contenders presumably will be. And after all, it is not as if the market was convinced of Mrs Thatcher's commitment to the ERM either.

The broader question is whether the contest has brought a Labour victory closer to hand. If Mrs Thatcher scrapes by in the second ballot and hangs on, the answer may be yes. The question cannot otherwise be answered without even knowing who is to stand against her. Rather than panicking, the markets may have to live with perplexity for a while yet.

ECC

ECC's new head Mr Teare has swiftly done the kinds of thing new bosses are supposed to do in recessions, and the stock market loves him for it. About 750 workers are to go, unnecessary capital spending is out and the end is nigh for ECC's unexciting spell in the British housebuilding business. Hence the way the shares bounced 3 per cent to 307p yesterday, in spite of the grim annual statement. But the new chief executive is only human. He cannot rewrite overnight the deteriorating economics of ECC's core business, of supplying kaolin or carbonate pigments to the paper industry.

ECC is probably in a worse fix than most investors would like to think, or than the 8.5 per cent yield on the shares implies. Its debt may not sound much: £33m of net borrowings,



plus $400m of US preference share capital. But that will rise sharply if ECC satisfies the US anti-trust authorities and forks out $520m for Georgia Kaolin. No wonder, then, that Mr Teare has slashed his capital spending back from £75m last year to a likely £25m-£30m in 1990-91. Small wonder, too, that some analysts think ECC's taxable profits will be less than £100m in the 12 months to December 31 1991 and that the dividend could fall.

The heart of the matter is that with 75 per cent of its kaolin business based in the UK, ECC is being badly squeezed by the strength of sterling at a time when the paper business is in a cyclical downturn from which it may not emerge this side of 1992. Talk of the company's clay and granite reserves is of great geological interest; but the coming year is one which ECC and its shareholders may want to forget rapidly.

BAA

Take a company with huge capital expenditure and which knows its next financial year will be tough, then add in a Monopolies & Mergers Commission review, and the explanation for BAA's interim results looks clear enough. The raw numbers seem much as expected; but add back an £18.5m provision against property losses and a reported 10 per cent pre-tax profit increase would look even better. Less subtle is an 18 per cent increase in operating costs, much of which came from spending on security and passenger services. In the full year, it looks as if BAA will charge an additional £13m of costs for resurfacing runways at Heathrow and Stansted. This rush of activity will help keep profits down to around £285m. Assuming a net dividend of 13p, the shares at 384p are on a prospective yield of 4.6 per cent and a p/e of 9.

All this should allow BAA to bring its Stansted terminal on stream next year, take the expected £50m hit on profits and still declare steady earnings. That should set the scene for renewed growth, while there is plenty of retained profit in hand to grow the dividend in line with historic earnings. Interest cover might dip briefly below three times, but meanwhile the company can look the MMC innocently in the eye.

The Gulf crisis has the potential to upset traffic forecasts, although these look conservative enough in the short-term and, like Eurotunnel's traffic estimates, can always be revised. Spending on airport security remains a potential black hole from which funds are difficult to recover. The MMC still represents the biggest danger to BAA, but for now the shares look worth their rating.

GrandMet

Grand Metropolitan's extraordinary appetite for deals is plainly undiminished. Yesterday it not only tied up the pubs and breweries swap with Elders, on only slightly modified terms. It also raised £120m through selling its UK restaurant business to Whitbread on a multiple seemingly in the high teens. Whitbread can doubtless make more of the Berni brand by combining it with its own Beefeater restaurants, while GrandMet improves its earnings in the current year. But GrandMet is left with a curious strategic anomaly. Its international expansion is based wholly on its brands, whether in food, drinks or retailing. But the bulk of the group's tangible asset value is tied up in a UK retail business – the expanded pub empire – which is now not branded at all.

Nevertheless, the clearance of the GrandMet/Elders deal leaves the rest of the UK brewing industry with some catching up to do. As the brewing tie starts to dissolve, an increasing number of hard-pressed regionals may follow Greenall Whitley's example and close their brewing entirely. A free trade specialist like Scottish & Newcastle may feel the need for alliances. Even Guinness, assuming it is not too occupied with its rumoured Spanish deal, may feel the need to secure more committed brewing distribution in the UK. It is an environment in which GrandMet's hyperactive approach has certain advantages.

Contestants set for round two

Continued from Page 1

the role of Mr John Major, the chancellor of the exchequer, who seconded Mrs Thatcher in the first round, but who would be a popular candidate in a second round. He is recovering from a dental operation.

Mr David Waddington, the home secretary, said that he had no reason to suppose that Mr Hurd and Mr Major would not propose and second Mrs Thatcher in the next round.

The contest has never reached a third ballot - Mrs Thatcher won in 1975 on the second ballot.

Meanwhile, there is set to be a debate in the House of Commons on a motion of no confidence in the government which was proposed by the opposition Labour party.

Prolonged contest worries

Continued from Page 1

There were immediate moves by the Thatcher camp to suggest that Mr Heseltine should not contest a second ballot given the Prime Minister's lead. Mr Nicholas Ridley, former trade and industry secretary, said: "She has a clear lead and I can see no point in a second ballot ... Mr Heseltine should leave it at that."

In contrast, Sir Anthony Meyer, the senior Tory backbencher who opposed Mrs Thatcher for the leadership a year ago, said: "It will be downhill for her from now on. She must step down, as she cannot possibly unite the party."

Mr Norman Tebbit, former party chairman, insisted there was no likelihood that Mrs Thatcher would be defeated by Mr Heseltine in the second ballot. He thought it was "quite clear" that Mr Heseltine did not command anything like 50 per cent of the votes of Conservative MPs.

Mr Norman Fowler, former employment secretary, thought it most unlikely that any other candidate would enter at the second round. Others were not so sure, saying everything depended on whether Mrs Thatcher could be persuaded to stand down in the interests of party unity.

Most Conservative Euro MPs voted for Mr Heseltine. Mr Michael Welsh, Euro MP for Lancashire Central, said: "It is certainly not over yet, but Mrs Thatcher would be very foolish indeed if she did not take notice of the signals she is being sent on Europe."

Setback for US over Gulf ruling

Continued from Page 1

While the US side was claiming that the discussions were still on track, but the Gulf crisis was not discussed in the closed session on the Conference on Security and Co-operation in Europe yesterday, as was originally expected.

The French presidential spokesman said he did not expect the 34 leaders to issue a joint declaration on the Gulf at the end of the conference today.

● Mr Gorbachev and Mr Bush will meet early next year in Moscow and may sign a treaty to cut their nuclear arsenals, officials from the two countries said.

Setting a date for the summit could spur negotiators to clear the final obstacles.

WORLDWIDE WEATHER

		°C	°F
Ajaccio	F	19	66
Algiers	S	24	75
Amsterdam	F	8	46
Athens	S	20	68
Bahrain	–	–	–
Bangkok	F	34	93
Barcelona	S	17	63
Beirut	–	–	–
Belfast	F	5	41
Belgrade	F	13	55
Berlin	C	5	41
Biarritz	F	15	59
Bombay	F	32	90
Bordeaux	R	13	55
Boulogne	F	8	46
Brussels	C	8	46
Budapest	F	6	43
Buenos Aires	R	33	91
Cairo	F	25	77
Cape Town	F	19	66
Caracas	–	–	–
Casablanca	F	19	66
Chicago	S	2	36
Cologne	C	9	48
Copenhagen	C	5	41
Corfu	F	20	68
Dallas	C	20	68
Dublin	S	4	39
Dubrovnik	C	17	63
Edinburgh	F	5	41
Faro	S	17	63
Florence	Dr	12	54
Frankfurt	R	9	48
Geneva	F	13	55
Gibraltar	S	21	70
Glasgow	F	7	45
Helsinki	Sn	-6	21
Hong Kong	–	–	–
Innsbruck	S	9	48
Inverness	R	6	43
Islamabad	F	22	72
Istanbul	F	17	63
Jakarta	C	33	91
Jersey	F	8	46
Johannesburg	F	27	81
Lima	C	20	68
Lisbon	C	16	61
London	C	7	45
Los Angeles	C	14	57
Luxembourg	R	7	45
Madeira	F	20	68
Madrid	F	9	48
Majorca	F	19	66
Malaga	S	22	72
Malta	F	20	68
Manchester	C	4	39
Manila	F	32	90
Melbourne	S	21	70
Mexico City	F	22	72
Miami	F	17	63
Milan	Fg	7	45
Montreal	C	0	32
Moscow	C	2	36
Munich	C	9	48
Nairobi	F	20	68
Naples	R	18	64
Nassau	F	21	70
New Delhi	–	–	–
New York	F	4	39
Nice	S	17	63
Nicosia	F	23	73
Oporto	Dr	13	55
Oslo	Sn	0	32
Paris	R	9	48
Peking	S	3	37
Prague	R	5	41
Reykjavik	C	-1	30
Rhodes	S	19	66
Rio de Janeiro	F	31	88
Rome	F	18	64
Salzburg	F	10	50
San Francisco	S	9	48
Seoul	S	7	45
Singapore	T	28	82
Stockholm	C	0	32
Strasbourg	R	12	54
Sydney	S	19	66
Taipei	C	19	66
Tangier	C	20	68
Tel Aviv	S	29	84
Tenerife	F	23	73
Tokyo	C	18	64
Toronto	C	-1	30
Tunis	C	22	72
Valencia	S	20	68
Venice	S	12	54
Vienna	C	7	45
Warsaw	F	5	41
Washington	S	7	45
Zurich	F	14	57

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

INSIDE

Air Canada fuels airline debate

The Canadian government appears prepared to raise the ceiling on foreign ownership of domestic airlines to 49 per cent from the present 25 per cent limit. Foreigners currently have a relatively small stake in the Canadian airline industry. This shift in attitude follows a proposal by Air Canada that it could expand its access to international funds without jeopardising Canadian control of the airline. Page 28

Field of dreams

New banks are being established in Nigeria at a phenomenal rate, despite sharply declining profits reported by some of the leading players. But such proliferation has meant increased competition for experienced managers and for borrowers, rather than for deposits. Tony Hawkins reports. Page 27

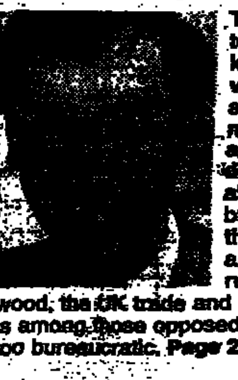
Olympic goes for gold

Olympic Airways, Greece's state-owned national airline, has had only two profitable years since it was sold to the state in 1974 by its founder Aristotle Onassis. The government is determined partially to privatise the carrier, believing it is the only way that Olympic can be competitive in a deregulated market. Kerin Hope reports on Olympic's quest for profit. Page 26

Against the grain in China

A bumper grain harvest in China has put the state-sponsored agricultural price support scheme under intense pressure. Prices have fallen and provincial governments are unable to buy or store large quantities of grain. Reform — in the shape of raising the price at which the state buys grain and eliminating subsidies to urban consumers — is now deemed critical to improving the economy. Page 35

Investment services struggle



The struggle continues to create a single market for investment services in Europe. Fresh attempts will be made next month to reach agreement on a new EC directive, which would allow practitioners to do business anywhere in the Community. Disagreement, however, runs deep. John Redwood, the UK trade and industry minister (left), is among those opposed to making the market too bureaucratic. Page 29

Babcock advances 6%

UK Engineering group Babcock International has increased interim pre-tax profits by 6 per cent despite the halting of a £158m ($311m) power station project in Iraq. Exceptional costs totalling £1.75m were split between the redundancy bill for 200 workers involved in the Iraqi order for boilers, and a write down in value of a 14.4 per cent stake in Sunleigh, a USM-quoted maker of golf gear. Page 31

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Badenwerk	225	+	7
Beiersdorf	770	+	20
Rosenthal	358	+	10.5
Falls			
Dragerwerk	271	−	14
Leifheit	745	−	10
Springer Axel	767	−	13
NEW YORK ($)			
Rises			
Gundle Env	16⅛	+	1⅛
Falls			
Am Cyanamid	49½	−	⅝
Eli Lilly	67⅞	−	1⅛
Koger Prop	5	−	¾
PARIS (FFr)			
Rises			
BIC	510	+	25
Schneider	630	+	18
Falls			
Cetelem	455	−	13
Eurocom	688	−	12
Havas	510	−	15
Interbail	410	−	20
TOKYO (Yen)			
Falls			
Fujikura	766	−	38
Hitachi	1090	−	30
Honshu Paper	2480	−	310
Hova Victory	1090	−	100
Kobe Steel	475	−	14
M'bishi Heavy	653	−	10

New York prices at 12.30

LONDON (Pence)			
Rises			
BAA	394	+	7
ECC	307	+	8
Hazlewood Foods	134	+	8
ICI	883	+	17
Kewill Systems	170	+	12
Park Food	190	+	25
Pelican	35	+	4
RMC	640	+	15
Rosehaugh	110	+	7
Slough Estates	235	+	10
Stanhope Props	116	+	8
Wiggins Teape	170	+	9
Falls			
Abbey	55	−	20
Carlton Comms	327	−	15
Emess	150	−	13
Hewitt Whiting	80	−	10
Reed Intl	365	−	18
TMD Advertising	234	−	18
Tie Rack	17	−	10
Tusker Bus	15	−	2½
WPP	215	−	64

The ad man's dream turns sour

Alice Rawsthorn looks at the reasons behind the sharp fall in WPP's share price

The WPP Group yesterday became the latest scapegoat of the nervous stockmarket when its share price plunged from 279p to 115p in a wave of panic selling following its profits warning on Monday.

Yesterday's collapse in the share price followed a sharp fall on Monday. The shares, which were worth more than 650p a year ago, fell by 99p from 378p on that day. WPP is now capitalised at less than a third of its value two days ago.

This scenario of panicking investors and a plunging share price is totally different from the WPP of a few years ago. WPP was once one of the stars of the London stockmarket thanks to its chief executive, Mr Martin Sorrell, former finance director of Saatchi & Saatchi. He succeeded in turning Wire & Plastic Products, an obscure manufacturer of supermarket baskets, into the world's largest marketing services group.

The catalyst for the collapse of WPP's shares yesterday was the profits warning on Monday. However, WPP's investors were reacting less to the prospect of a fall in projected profits, than to the threat that future profits may not be sufficient to service the £315m ($620m) mountain of debt amassed by WPP in its acquisitions of the late 1980s.

In short, investors are terrified that WPP will turn into yet another of those acquisitive companies that stretched themselves too far in their over-ambitious deals of the late 1980s.

For months, the more bearish advertising analysts have warned that Mr Sorrell will rue the day in summer last year that he mounted his $864m bid for Ogilvy & Mather, the US advertising agency.

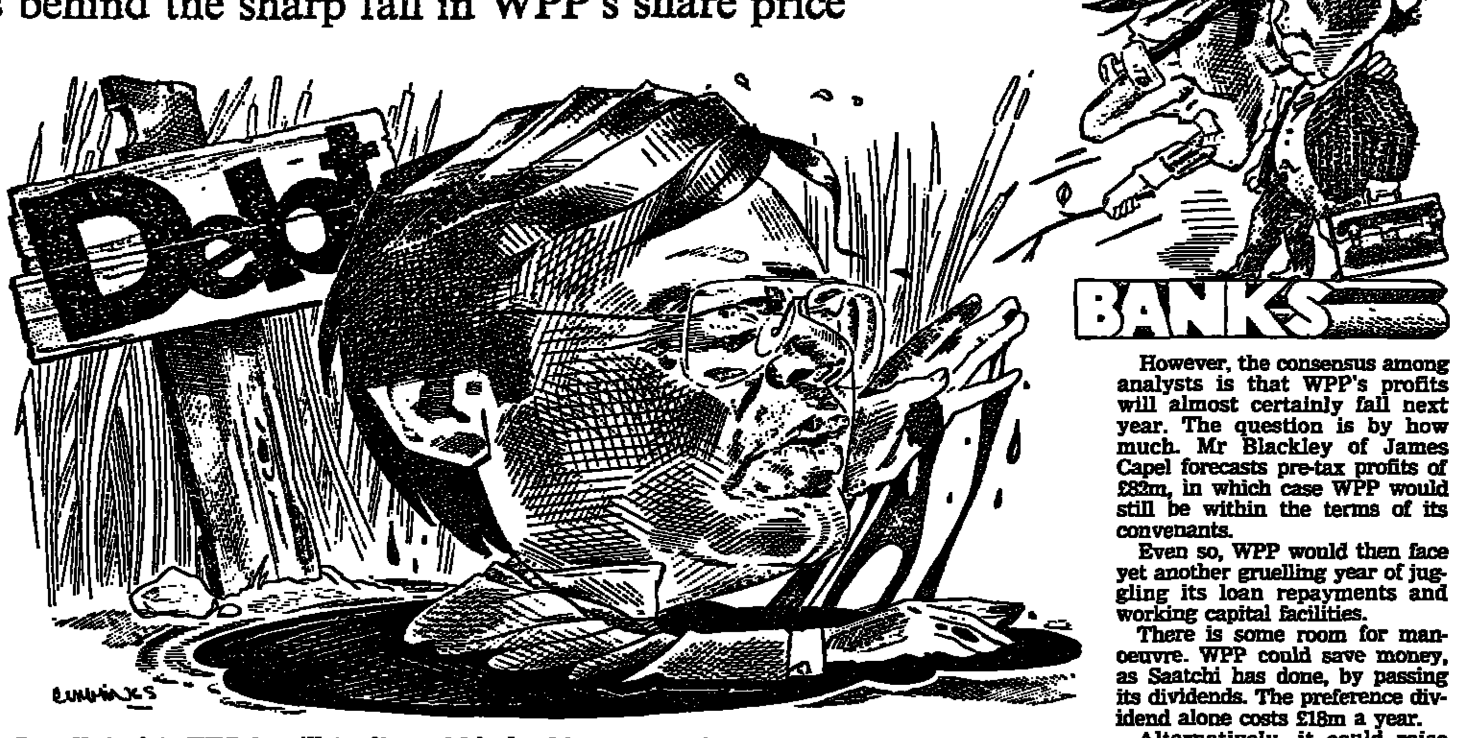
Mr Sorrell, growled the bears, had simply paid too much at the wrong time for Ogilvy. They see the deal as a gamble that the international advertising industry would continue to show healthy growth into the 1990s. If so, the premise for the deal was over-optimistic. The US and the UK, two of the main advertising markets, have tumbled into recession this year.

The bearish analysts – and WPP's more nervous investors – have interpreted Monday's profits warning as a signal that the Ogilvy gamble may have failed. Mr Sorrell, for his part, maintains that they are panicking unnecessarily and insists that WPP is still trading within the terms of its banking covenants.

The critical question for WPP is whether it can continue to meet the conditions of those covenants and its operating companies can carry on producing sufficient profits to meet its interest payments, loan repayments and the commitments for deferred payments amassed in its acquisitions.

The position for this year looks like this. WPP, like most of the other global marketing groups, is struggling against a slowdown in the advertising markets of the US, UK, Australia and Scandinavia. Moreover, Scali McCabe Sloves, one of its smaller New York agencies, is in a very vulnerable position after losing its $40m Volvo account last week. Scali resigned the account after the humiliating revelation that one of its commercials for Volvo had been rigged.

As a result, analysts have reduced their profit projections for 1990 from £110m to £90m on operating profits of £130m. More important, WPP's debt, which had been expected to fall to £285m by the year-end, will instead rise to £315m, because of the cashflow problems caused by its operating difficulties.



Sorrell: insists WPP is still trading within banking covenants

WPP will have to pay about £40m in interest this year. This means that its interest cover, at about 3.2 times, will still be above the minimum of 2.3 times stipulated in its banking covenants for 1990.

The group is still in a tight financial position. It also has to find £32m next month as the first in the series of repayments on its medium-term loan for Ogilvy and about £10m for deferred payments on acquisitions.

Next year, the position will be considerably tighter. The minimum interest cover stipulated in the banking covenants will rise to about 2.5 times. WPP will face higher deferred payments of about £19m in cash and £12m in shares. One of the ironies of its position is that most of its deferred payments apply to its non-advertising activities, which are still performing reasonably well. The group will also have to find about £30m to meet the next loan repayment.

Mr Neil Blackley, advertising analyst at James Capel, estimates that WPP needs to make at least £75m in pre-tax profits next year to stay above its covenanted interest cover. It also needs to find £30m for its repayment without breaching its loan facilities, he says.

Can WPP do it? The condition of the US and UK advertising markets will undoubtedly be an important factor. The economic outlook in both countries is so uncertain that it is impossible to predict what will happen, but both markets are expected to be tough.

Another consideration is the extent to which WPP's corporate problems may affect the performance of its subsidiaries, JWT and Ogilvy, in particular.

Mr Sorrell says it is impossible to produce a reasonable estimate of WPP's performance in 1991 until the group's budgets are completed in the middle of next month.

However, the consensus among analysts is that WPP's profits will almost certainly fall next year. The question is by how much. Mr Blackley of James Capel forecasts pre-tax profits of £83m, in which case WPP would still be within the terms of its convenants.

Even so, WPP would then face yet another gruelling year of juggling its loan repayments and working capital facilities.

There is some room for manoeuvre. WPP could save money, as Saatchi has done, by passing its dividends. The preference dividend alone costs £18m a year.

Alternatively, it could raise capital by selling subsidiaries. In the past, Mr Sorrell has seemed temperamentally loathe to sell companies. He did, after all, build WPP on acquisitions and might see disposals as an admission of failure.

The other long-term alternative would be to bring in an external investor, possibly one of the powerful Japanese agencies, such as Dentsu or Asatsu, as a minority investor to refinance the group.

In the meantime, Mr Sorrell has been left to juggle WPP's finances and to finalise the group's budgets in the hope that he will be able to reassure his bankers, placate his investors and prevent yet another plunge in WPP's share price.

Horst Urban: state of suspense cannot be allowed to continue

Annual dividend to be cut from DM8 ● Talks on takeover by Pirelli in deadlock

Continental earnings weaken further

By Katharine Campbell in Frankfurt

CONTINENTAL, the German tyre company under takeover threat from Pirelli of Italy, yesterday announced a sharp deterioration in earnings for the first nine months of 1990, and said it would be cutting this year's dividend. It paid DM8 a share in 1989.

Although no actual profit figures were announced, Continental admitted that earnings had weakened further in the third quarter, after a 39 per cent decline to DM100.5m ($68.2m) in the first six months. The company added that it would not make a loss for this year.

Mr Horst Urban, chief executive, said that the current "state of suspense" relating to the Pirelli bid could not be allowed to continue and that the current uncertainty must be ended.

The two companies are deadlocked after Continental rejected Pirelli's initial takeover idea, and then set preconditions to resuming talks, subsequently rejected by Pirelli. Continental yesterday repeated it was open to "discussions about other solutions."

At an extraordinary meeting of the supervisory board today, Mr Urban will report on Pirelli-related developments.

Continental yesterday denied that any significant steps, such as a decision to cease contact with Pirelli altogether, were expected.

Continental is suffering from the "earnings crisis" gripping all parts of the world's tyre industry. In addition to the effects of price wars in many important markets, the tyre manufacturer stressed the damage done by a continuing weak dollar in recent months.

Group turnover rose 1.2 per cent for the first nine months of 1990 to DM5.97bn (after a downward adjustment of the comparable 1989 figure because of currency fluctuations). But a traditionally strong fourth quarter should bring a 2.4 per cent sales increase for the year as a whole, Continental forecast.

Narrowing prices in the tyre division meant that in spite of volume increases of 5 per cent for the first nine months, sales rose only 2.7 per cent.

The General Tire operation in the US will make a loss this year, according to a statement issued last week.

ContiTech, the rubber products division, increased sales by 18 per cent (including for the first time consolidation of Clouth Gummiwerke, Germany, and Hycop of Sweden).

Profits, however, did not match that growth, Continental admitted.

Siemens in talks on control of Spanish telecoms group

By Peter Bruce in Madrid

SIEMENS, the German electronics group, confirmed yesterday that it is holding exploratory talks with Amper, one of Spain's biggest domestic suppliers of telecommunications equipment, possibly with a view to taking control of the company.

The move marks the latest effort by Europe's powerful telecom equipment producers to lock into the Spanish market, which is felt to have enormous potential for growth but suffers from chronic shortages.

Amper, 16 per cent-owned by the Spanish telephone monopoly, Telefonica, is the biggest supplier of telephones in the country. It has been developing a range of new products in joint ventures with Motorola and AT&T of the US.

But the company, valued at some $150m on the Madrid market, is plagued by poor orders in its defence and consumer divisions.

Dealers in Madrid say about 40 per cent of its shares are held by foreign fund managers.

Siemens is the only large European manufacturer of digital switching and other telecom equipment that does not yet supply Telefonica.

Alcatel Standard, the Spanish arm of Alcatel, the telecom division of France's CGE, has 52 per cent of the switching market. Ericsson of Sweden has 40 per cent.

Although Telefonica owns 21 per cent of Alcatel Standard, it recently invited AT&T to supply it as well, in an effort to overcome production delays. AT&T, in a joint venture with Amper, now has 8 per cent of the Spanish market.

CGE has been pressing Telefonica this month to take a stake in Alcatel Standard's parent company in France.

This would further commit Telefonica to an alliance with the French supplier. To do this, Telefonica could swap its 10 per cent stake in the Italian group Telettra, which was recently sold by Fiat to CGE.

But Telefonica is trying to shed its role in manufacturing and, following its telecoms acquisitions in Chile and Argentina, to concentrate on services.

The Spanish government, however, has a weakness for large industrial alliances and is urging Telefonica to develop stronger ties with AT&T.

A Siemens bid for Amper may force AT&T to try to counter it, to protect its position as a supplier to Telefonica.

Cypriot warning on Polly assets

By John Murray Brown in Nicosia and Richard Waters in London

IT COULD take as long as 10 years for the administrators of Polly Peck International to secure ownership of the group's assets in northern Cyprus, according to the lawyer acting for the group's subsidiaries on the island.

Mr Menteş Aziz, pointing out that northern Cyprus is not a recognised state, said: "The courts in London do not recognise our judgments, and we do not recognise theirs. An administration order in London is not enforceable here." Mr Menteş, one of Nicosia's leading barristers, added: "They must forget about Cyprus."

His comments support warnings given by Mr Asil Nadir, the Polly Peck chairman, who said in Istanbul on October 25 that the investments in Cyprus and Turkey "would be specially protected" from outside interference.

However, Mr John White, a partner of London law firm Cameron Markby, which is acting for the administrators, said he was not attempting to secure assets on the island.

The administrators, he said, were concerned only to get a complete picture of the group's operations in Cyprus. These businesses have always been a significant contributor to Polly Peck's reported profits.

This would enable the administrators to carry through their restructuring of the group's operations, said Mr White.

If it proved impossible to keep Polly Peck afloat, he said, the administrators would still not need to secure assets in Cyprus. They would be looking only to sell Polly Peck's shares in the companies on the island.

However, questions of access could arise if the Cypriot operations were wound up at any stage.

Meanwhile, there were signs that the administrators have made headway in their efforts to gain access to the accounts of Polly Peck's nine Cypriot companies. However, they have still to overturn a court injunction won by seven local citrus growers which prevents access to the books.

Polly Peck's operations on the island – principally Sunzest Trading, a fruit producer and exporter, Unipac Packaging Industries, a cardboard box manufacturer, and Voyager Kibris, which operates the Girne View and Palm Beach hotels – are owned through Voyager Limited, an intermediate holding company based in the Isle of Man.

INTERNATIONAL COMPANIES AND FINANCE

ECC warns on future as annual profits fall 42%

By Andrew Taylor, Construction Correspondent

ECC Group, the world's largest supplier of china clay, announced a fall in pre-tax profits of more than 42 per cent from £150.6m ($296.7m) to £86.4m during the 12 months to the end of September.

The British group, which seven weeks ago announced plans to cut its china clay workforce by almost a fifth, warned that trading conditions would remain difficult next year.

Group pre-tax profits were taken after a £32m exceptional provision to cover redundancy and rationalisation costs.

Profits from china clay, or kaolin, which is used mainly for fillers and coatings by the paper industry, fell by almost 14 per cent from £90.8m to £78.1m during the 12 months.

Building materials profits from aggregate and concrete block sales, mainly in the UK but also in the US, fell by just over a fifth from £50.7m to £40.1m. Housing profits tumbled from £23.9m to £15.3m.

ECC, formerly known as English China Clays, has also announced plans to sell its British housebuilding operations by 1993. It expects to raise at least £200m from the sale.

In June, ECC sold its 29 per cent stake in Bryant, the UK housebuilder and contractor, for £49.9m. This compared with a purchase price of £52.8m at the beginning of 1987.

Mr Andrew Teare, who took over as group chief executive in June, said he had accelerated a cost savings programme which had been planned before his arrival. However, the decision to quit housing to concentrate on the core businesses of china clay and building materials had been his.

About 750 jobs will be cut from ECC's china clay operations, largely from around St Austell in Cornwall, where the bulk of the group's clay pits are situated.

Mr Teare, formerly managing director of Rugby, Britain's third-largest cement group, said the cuts would produce substantial cost savings with no loss of production.

The fall in profits was mainly due to adverse exchange rate movements. These had reduced the cost of US kaolin imports into Europe and affected clay exports from the UK.

The group, which is switching to a December year-end, intends to pay a total dividend for the 15 months of 24.5p. This is equivalent to 19.6p over 12 months – the same as during the year to September 1989.

Suzuki improves to Y4.6bn at half year

By Our Financial Staff

SUZUKI, the Japanese motor group which is the world's third largest producer of motorcycles, reports improved profits for the six months to September and plans to pay an increased dividend.

Turnover for the six months rose to Y491.5bn ($3.81bn) from Y405.3bn a year ago, while net profits improved to Y4.6bn from Y4bn. The interim dividend goes up from Y3 a share to Y3.5.

Suzuki has raised its forecast for domestic sales for the whole of this year to 510,000 mini-vehicles and 45,000 compact cars.

Vehicle sales rose to 267,839 in the half-year from 250,976 a year earlier, due mainly to a recovery in demand for mini-cars after the introduction of new models under new standards.

The company confirmed that net profits this year would be around Y10bn while sales were expected to be Y20bn. Suzuki's 1989-90 net profits totalled Y7bn.

GrandMet to sell Berni Inns chain to Whitbread

By Philip Rawstorne

GRAND Metropolitan is to sell its UK Berni Inns chain of family restaurants to Whitbread, the Britishbeer, food and retailing group, as part of a £115m ($218m) package of retail sites.

The deal will bring the total of GrandMet's disposals since the $5.8bn acquisition last year of Pillsbury, the US food group, to more than £1.5bn, with the sale of the William Hill betting shops to Brent Walker accounting for half that sum. GrandMet also put its Alpo pet-food business in the US on sale for around £400m earlier this year but later withdrew it.

Government approval yesterday for GrandMet's pubs-for-breweries swap with Courage is expected to bring another 1,500 pubs on to the market next year.

The retail sites being sold to Whitbread include 115 Berni Inns and the Berni brand name as well as 37 managed pubs in England and Wales.

GrandMet will retain 58 Berni Inns, which will continue trading under the brand name for the next year.

Whitbread will pay £55m on completion of the sale on Monday. Payment of the remaining £60m, and an interest charge of £2.8m, will be made next March.

It is the biggest single purchase of retail sites Whitbread has ever made.

Mr Peter Jarvis, group chief executive, said: "This is a very exciting acquisition for us since these are truly outstanding sites, many of which are tailor-made for our successful range of retail concepts.

"Very rarely does such a large package of sites come on to the market.

"Our strong balance sheet, coupled with our well-established brands, means we are ideally placed to grasp the opportunity."

Whitbread, which is also buying stock at valuation worth around £3m, said the sites would be used to expand the company's retail business portfolio which includes Beefeater restaurants, Whitbread Inns, Brewers Fayre, Roast Inn, and Mulligans.

Olympic Airways seeks a way up

Kerin Hope reports on troubles facing the Greek national carrier

The scene is Athens airport at the tail end of the tourist season. Olympic Airways' midday flight to London is delayed because an ageing Airbus is out of commission. The passengers, mostly Greeks and youngish foreigners, lounge on uncomfortable plastic chairs waiting for a Boeing 747 to return from a domestic flight and take them to Heathrow.

There is hardly a briefcase to be seen, for businessmen and those who travel regularly know better. They take a British Airways flight at breakfast time.

Greece's state-owned airline has one of the worst punctuality records among western European carriers, as well as the oldest fleet and one of the lowest passenger yields. More than 90 per cent of Olympic passengers travel on promotional fares, mainly between April and October.

The airline's losses for 1990 are expected to top Dr20bn ($130m), including interest payments on accumulated debt of Dr110bn. "We'd hoped to cut last year's losses substantially, but the Gulf crisis will add an extra Dr7bn to the fuel bill by the end of the year, and we'll be back where we started," says Mr Loukas Grammatikos, the director general.

Olympic has had only two profitable years since it was sold to the state in 1974 by its founder, the shipping tycoon Mr Aristotle Onassis, shortly before he died.

Successive governments have leaned heavily on the airline's management, deciding ticket prices, loans and aircraft purchases and making political appointments at every level. Staff levels swelled from 7,000 in the mid-1970s to 12,500 this year, but there is still a shortage of pilots and senior technicians.

However, the present conservative government is committed to partial privatisation as the only way of ensuring that Olympic remains competitive in a deregulated market. Nothing is official yet, but Olympic directors speak of floating a share issue on the Athens stock exchange. The Greek state would retain 51 per cent of the equity and a percentage of the remainder would be offered to a foreign airline.

"Ideally we'd sell two packages of around 20 per cent each, one to a European and the other to a Japanese airline," said one board member. "It should be done as soon as possible."

Several major carriers have shown an interest in taking a stake, but no formal negotiations are under way. A buyer would be expected to contribute management expertise to turning the airline round, but diplomatic skills will also be needed.

Flying year-round to over 30 domestic destinations, including 20 islands, accounts for most of Olympic's deficit. Executives complain that despite sharp fare increases this year, the government still puts social and political considerations first.

Policy calls for promoting air links with remote islands as a way of stemming depopulation. Rivalry with Ankara over Aegean air space control means that regular flights to islands close to Turkey are vital to the national interest.

One obstacle to improving ground operations is being removed with the sale of 66 per cent of the airline's loss-making meals subsidiary, Olympic Catering. Five international caterers and hotel chains are bidding and the deal should go through by the end of the year.

Meanwhile, Mr Grammatikos, a pilot himself and the airline's former technical director, is implementing an $800m renewal programme for Olympic's hardworked fleet of 40 aircraft. The only new order placed in the 1980s was for three Boeing 767s, suitable for long-haul flights but not for the medium-range distances that make up the bulk of Olympic routes.

"We have a surplus of long-haul planes but not enough smaller ones. That means we end up using a 747 for a 40-minute local flight to Crete – a terrible waste of fuel and efficiency," Mr Grammatikos says.

The Boeing 767s have now been exchanged for six Boeing 737-400s to be delivered next year, enabling the airline's 25-year-old Boeing 727s to be retired. Also, an option has been taken on a dozen 737s for delivery at the end of the 1990s.

In addition, two Airbus A300-600s are on order, while Olympic Aviation, the airline's light aircraft subsidiary, has already taken delivery of two out of eight ATR turbo-prop aircraft made by Aerospatiale. "Eventually we should operate turbo-props for most domestic flights and regional routes like Milan or Istanbul," Mr Grammatikos says.

Olympic's long-haul routes to the US, South Africa and Australia are another problem. They were started partly to enhance prestige but also to tap a potentially huge market of Greek migrants going home.

Now they make large losses "because they appeal only to the ethnic market and don't attract businessmen," says Mr Stefanos Romeos, a former planning chief who now heads the cargo division. "Our passenger load factor across the Atlantic is especially low,

partly because we don't have an alliance with an American airline to act as a feeder."

None the less, Olympic started an Athens-Tokyo flight in June on the basis of an eight-month study of Japanese tourist and business travel patterns to Europe. It got off to a slow start but is forecast to turn profitable next year.

It is Olympic's European network that provides respectable profits, despite poor time-keeping and seasonal swings in demand.

Mr Grammatikos believes that with a 5 per cent share of the European market, load factors that compare favourably with Swissair and KLM and landing slots at every European Community airport hub, Olympic "is nicely placed to find a partner".

Dassault expects rise in jet sales

By William Dawkins in Paris.

DASSAULT, the French aircraft group, is expecting a significant increase in the sales of business jets over the next five years to help compensate for sluggish growth in military markets.

Mr Serge Dassault, group chairman, yesterday said Dassault Aviation was aiming to lift sales of civil aircraft from the present 20 per cent of turnover to 35 per cent by the middle or end of the decade.

The proportion could even rise towards 60 per cent, adding in sales of computer-aided design software, services and contributions from Falcon Jet, the US subsidiary, said Mr Charles Edelstenne, finance director.

Mr Dassault was speaking a day after the signing in Paris of the conventional arms reduction treaty between Nato and the Warsaw Pact, the political expression of the fall in military demand which has hit the industry.

He expected military sales to fall from the present 78 per cent to 55 per cent of Dassault's total turnover over the same period. His target was for space activities to rise to 10 per cent of sales.

Dassault, whose Falcon range of jet aircraft holds 25 per cent of the world's business jet market, is predicting a stagnation in group sales this year around the FFr19.45bn ($3.91bn) reported in 1989.

However, Mr Dassault forecast that business jet sales would rise from the current average of 35 aircraft annually to 50 by 1995, when they would then contribute between FFr4bn and FFr5bn to group turnover.

Dassault is pinning much of its civil aviation hopes on the new Falcon 2000, a twin-jet, intercontinental aircraft due for certification and first deliveries at the end of 1994. It will sell for around $13.7m, and be capable of carrying eight passengers for 5,500 km.

The group expected to hear shortly whether Boeing, the US aircraft maker, would allow the group to make wing flaps for the future Boeing 777.

Dassault is also continuing talks on possible co-operation deals with foreign aerospace groups including Saab of Sweden and Alitalia and Piaggio of Italy.

Dutch insurers talks on health co-operation fold

By Ronald van de Krol in Amsterdam

TALKS between three large Dutch insurers on co-operating in the field of health insurance have broken down because of the recently-unveiled plans by one of the participants, Nationale-Nederlanden, to merge with NMB Postbank, the third-largest bank in the Netherlands.

Aegon and Delta Lloyd, which are ranked second and fourth respectively in the Netherlands, said yesterday that they had pulled out of the talks because the planned merger would give Nat-Ned new, bank-based distribution channels.

"We are all companies that work through insurance agents. Nationale-Nederlanden is working on tapping new distribution channels, and that changes the situation," a spokesman for Aegon said.

Nat-Ned, the largest insurer in the Netherlands, said it regretted the move by Aegon and Delta Lloyd. A spokesman noted that Nat-Ned also works closely with Dutch insurance agents and brokers, who currently bring in about 85 per cent of Nat-Ned's domestic insurance turnover.

Aegon and Delta Lloyd said that they were prepared to resume the talks with other interested parties. Nat-Ned also said it was "fully open to participation by private health insurers in a consultative framework."

INTERNATIONAL COMPANIES AND FINANCE

SAB and Nedcor in financial services venture

By Philip Gawith in Johannesburg

SOUTH African Breweries (SAB), the country's largest consumer group, and Nedcor, a leading bank, have joined forces to provide selected financial services and products to the mass consumer market, in a move which could revolutionise the financial services market market.

A new company, the Advantage Investment Corporation, has been formed with SAB and Nedcor as equal shareholders. It will seek to marry Nedcor's financial expertise to SAB's formidable marketing expertise and an estimated 3.5m strong retail client base. The venture will be headed by Mr Kevin Brewer, formerly financial director of Edgars, an SAB subsidiary.

Although many consumer retailers around the world have dabbled in financial services, Mr Meyer Kahn, executive chairman of SAB, says he belives it to be the first case of a tie-up being concluded with a leading financial institution.

Explaining the logic of a joint venture, Mr Kahn said: "The secret of SAB's success is that we have always stuck to our knitting. It would be years, if ever, before we mastered financial services. This way we supplement our own marketing skills."

Mr Kahn said the project, which involved substantial commitment of resources, was a long-term investment and he did not anticipate much reward in the first five years. He said the project, in which all SAB's retail subsidiaries would participate, was a means of adding value to existing customer traffic and infrastructure.

The new company will probably sell products such as unit trusts, life insurance policies and possible home loans. Mr Kahn said the aim would be to strip these products of their mystique and make them available to the mass consumer markets which SAB dominates.

He said its approach would differ from that of conventional financial services operations. "The delivery system will be totally different and the products will not be 'me-too'. They will be products for the man in the street so that everyone can participate."

ICI Australia posts fall in pre-tax profits to A$121m

By Kevin Brown in Sydney

ICI Australia, a 62.4 per cent subsidiary of ICI of the UK, yesterday blamed falling prices and "dumping" by overseas competitors for a 67 per cent cut in pre-tax profits to A$121m (US$92.3m) for the year to September 30, on turnover down 3 per cent to A$3bn.

"The result was most disappointing," ICI said. "The main reason was a significant increase in import competition, due primarily to sharp declines in the international prices for plastics and speciality chemicals, and the dumping of some products into Australia."

The company said the progressive weakening of domestic economic activity and the strengthening of the A$ exchange rate in the second half of the year had also adversely affected results.

Other reasons for the poor result included substantial increases in operating costs caused by domestic inflation, higher feedstock prices and more stringent environmental standards. Several plants were closed during the year, at a cost of A$30m.

The directors said the outlook for the current year was "difficult and uncertain" because of the impact of higher oil prices and the likelihood of weaker demand from significant customers in the construction, manufacturing and rural sectors.

The directors declared a final dividend of 2 cents, making a total cash dividend of 20 cents for the year, compared with 38 cents last year. The company also paid an additional 12 cents scrip reinvestment dividend last year, which will not be repeated.

Dorbyl hit by worsening business conditions

By Philip Gawith in Johannesburg

DORBYL, South Africa's leading engineering company, posted a drop in income for the year to September after a more serious-than-anticipated deterioration in business conditions.

Turnover rose 13.5 per cent to R2.84bn ($1.12bn) from R2.5bn, but tighter margins and a 22 per cent rise in the interest bill saw pre-tax profits fall 5.6 per cent to R147.4m from R156.1m. A lower tax bill, however, limited the decline in attributable earnings to 1.8 per cent, to R110.1m from R112.1m.

During the past year Dorbyl spent R159m on capital projects, of which R57m was invested in Tosa Seamless, a joint venture with Iscor to manufacture steel pipes, tubes, flanges and fittings. The commissioning of the plant was delayed until June, but production problems remain and losses have been incurred. Efforts are being made to attend to these problems.

Mr David Mostert, chief executive, anticipated "very difficult trading conditions" ahead. But he said the group was well placed to handle these following modernisation of plant, investment in human resources and a broadening of the group's base.

Earnings per share were 1.8 per cent lower at 345.2 cents against 351.4 cents while the dividend was raised by 3 per cent to 103 cents from 100 cents.

Hanwa tumbles to Y12bn

HANWA, a Japanese steel trading company which became an aggressive investor in financial markets in the late 1980s, reported a 43.9 per cent plunge in pre-tax profit to Y12.7bn ($98.4m) in the six months to September, writes Ian Rodger.

The company warned a month ago it had suffered Y25bn in book losses to its securities portfolio in that period and that its net profits would be down 30 to 40 per cent. In the event, the appraisal loss was Y31.4bn and net profit was down 37.3 per cent to Y369.1m.

Revenue from steel trading was flat at Y369.1bn, but operating profit jumped 44.3 per cent thanks to higher prices.

The company is forecasting a pre-tax profit of Y33bn for the full year, down 14.1 per cent.

It intends to maintain its Y5.75 per share normal interim dividend and pay an additional Y0.75 extraordinary one.

The growth and growth of banking in Nigeria

Undeterred by declining profits, banks are being established at a phenomenal rate, **Tony Hawkins** reports

Reconciling appearance and substance in the Nigerian economy has long taxed the ingenuities of business analysts. Nowhere is this more striking than in a banking sector, awash with liquidity but with real interest rates in the region of 7 per cent.

New banks are being established at a quite phenomenal rate despite sharply declining profits reported by some of the leading players and a gloomy official assessment that one in three of Nigeria's banks is in the "problem" category.

In August, the Nigeria Deposit Insurance Corporation (NDIC) reported that, at the end of last year, 27 of 69 banks were undercapitalised, seven were "distressed", while no fewer than 28 had "classified assets" – non-performing loans – that exceeded shareholder funds.

One might have expected that this would deter new entry, but not so. There will soon be 130 banks – up from 81 a year ago. Such proliferation has meant increased competition for experienced managers and for borrowers, rather than deposits.

Despite the commitment to deregulation, the regulatory system is both protecting the inefficient and encouraging new entry. Each bank is guaranteed a foreign currency allocation at the daily auction; until its lending reaches N50m ($6.2m) a new bank can ignore official credit guidelines.

There are two ironies: successive Nigerian governments have required banks to establish new branches, particularly in rural areas, to boost bank deposits.

But once a bank reaches its 12.5 per cent credit increment for the year, there is no incentive to attract new deposits, especially since the 1990 decision forcing banks to pay interest on current accounts and the recent issue of stabilisation securities to mop up excess liquidity.

Secondly, the aim of mobilising savings is to finance investment, but fixed investment is in danger of being choked by high real interest rates.

There is no reason why bankers, hamstrung by credit controls, should reduce interest rates in order to lend more. This will happen only if credit demand collapses of which there is no sign. Indeed, foreign reluctance to invest new equity in Nigeria has forced business to become more highly geared.

In the first half of the year, private sector borrowing rose 9.6 per cent and the recent widening of the premium for foreign exchange in the parallel market suggests that credit demand remains strong.

Official reliance on credit ceilings is understandable. Having succeeded in bringing inflation down from 41 per cent in 1989 to a forecast 15 per cent in 1990, the CBN is anxious to keep a tight grip on credit, but this is enormously difficult at a time when the government is spending heavily on its democratisation programme and surging oil receipts are fuelling the country's external reserves and money supply.

Three main remedies are being mooted for Nigeria's banks in the 1990s — tighter supervision, increased competition and restructuring.

The end result is the worst of all worlds – excess liquidity and high real interest rates.

The optimists argue that the inverse yield curve – prime rates ranging from 22 per cent to 28 per cent alongside a seven-year debenture issue currently being marketed with a 21 per cent return – points to a reduction in lending rates before the very year is out.

But inflation is a lagging indicator and some bankers worry that real interest rates will disappear next year as inflationary pressures resurface.

A far more serious problem is the system's underlying structural weakness; in its appraisal of 62 banks, the NIDC found that nearly half were undercapitalised – capital and reserves were less than 5 per cent of total assets. Bad loans totalled N9.4bn or 41 per cent of total bank assets, while in the seven "distressed" banks, two-thirds of loans were uncollectible.

The crisis banks are not the new, undercapitalised ones recently opened and neither can their problems be attributed to the loss of business to the newcomers.

Instead, the problem banks are those with a long history of poor management, politically motivated lending and the accrual of interest on non-performing loans as a basis for declaring paper profits and paying cash dividends.

The tip of the iceberg is one of the country's oldest banks – the National Bank of Nigeria – owned by three state governments. In March it had liquid assets worth N42m set against deposits of N858 m. Four-fifths of loans are "unrealisable". It typifies the quality of assets and liquidity crises endemic among the 20 banks controlled by state governments.

Last year, even some of the well-managed banks were forced to turn to the central bank for support when at a stroke, the authorities pulled N8.3bn of deposits out of the system.

Banks which were heavily reliant on public sector deposits – diverted to the central bank – became illiquid overnight and were forced to borrow N2.3bn from the CBN, a quarter of which had been repaid by the end of 1989.

These difficulties have been compounded during 1990 by the increasingly acute shortage of skilled and experienced bankers and relentless cost pressures.

One banker estimates that his cost of funds has more than doubled in the last year, while the skills shortage is also contributing to cost escalation. With widespread poaching of staff between banks, a senior banker earns three or four times as much as his counterpart in industry.

Three main remedies are being mooted for Nigeria's banks in the 1990s – tighter supervision, increased competition and restructuring.

Deregulation and competition will get a boost if the World Bank's financial sector and public expenditure policy loan – in jeopardy as a result of a dispute between the Bank and the government over spending on the Ajaokuta steel project – comes into play. This would sharpen the shift from direct to market-based monetary instruments, sweeping away the existing cumbersome system of sectoral credit allocations and, ultimately, credit ceilings.

At the same time, the Nigerian authorities and the NDIC will have to move to bail out and restructure the problem banks, impose internationally acceptable accounting standards, raise minimum capital for banks to N30m for merchant banks and N50m for commercial banks and enforce Bank for International Settlements capital adequacy and lending ratios.

Lagos bankers disagree on what all this will mean for the industry in the 90s.

Many of the "new breed" bankers who have launched the new banks are confident that they will do even better – in a more competitive environment. Older hands have their reservations, predicting a shakeout, in which some of the later arrivals as well as the distressed state banks will go under. But such predictions have been doing the rounds for the last two years and still the boom – in new entrants if not in profits – continues.

INTERNATIONAL COMPANIES AND FINANCE

Canada looks at easing airline curbs

By Bernard Simon in Toronto

CANADA IS edging towards easing curbs on foreign ownership of its domestic airlines as part of a sweeping overhaul of aviation policy.

Mr Doug Lewis, Transport Minister, said the government was willing to discuss raising the ceiling on foreign ownership of domestic airlines to 49 per cent from the present 25 per cent.

Mr Lewis' comments come *on the heels of* a proposal by Air Canada that the foreign ownership ceiling should gradually be lifted as a means of expanding the carrier's access to international funds without jeopardising Canadian control.

Relaxed foreign ownership rules would add another facet to a comprehensive review of aviation policy, which includes putting several of Canada's largest airports in the hands of local authorities; allowing private developers to modernise Toronto's international airport; and negotiating a less restrictive *air traffic agreement* with the US.

Ottawa's anti-monopoly watchdog, the Bureau of Aviation Policy, *has supported a* higher foreign ownership ceiling. Mr Howard Wetston, bureau director, said the 25 per cent limit may have prevented more than one bidder emerging last year for Wardair, the troubled charter airline eventually taken over by Air Canada's main domestic rival, Canadian Airlines International.

Foreigners currently have a relatively small stake in the Canadian airline industry. Air Canada's foreign ownership is estimated at just over 15 per cent, substantially lower than the level when the privatisation of the airline was completed last July.

Canadian Airlines estimated that foreigners own less than 4 per cent of its parent company, PWA Corporation of Calgary. A CAI official said yesterday: "We have no real interest at this time in seeking foreign equity."

Both airlines have been hit hard by higher fuel bills and the slackening North American economy. Air Canada last month announced a 13 per cent cut in its workforce.

Earnings at Dayton Hudson slip to $56m

By Barbara Durr in Chicago

DAYTON Hudson, one of the top five *US retailers*, reported a decline in third-quarter net earnings, due largely to its $1.1bn acquisition of Marshall Field's from BAT of the UK earlier this year and the impact of a new employee stock ownership (Esop) plan.

For the quarter ending November 3, net earnings fell to $56m, or 70 cents a share, compared with $64m, or 83 cents, last year.

The company, based in Minneapolis, also announced a *$1bn capital* capital spending plan for 1991. It includes opening 46 more stores in its Target chain, 15 to 20 Mervyn's stores and two department stores.

Third-quarter results would have been flat without the Esop programme and purchase of Marshall Field's.

Revenues for the third quarter rose 16 per cent to $3.6bn, a considerably greater increase in the retailing business than at comparable stores where revenues rose just 3 per cent.

For the first nine months, net earnings rose to $175m, or $2.12 a share, against $160m, or $2.06, a year ago. Nine-month revenues from the three store chains increased 14 per cent to $9.7bn, again outperforming comparable store chains where revenues rose just 5 per cent. Dayton Hudson operates 708 stores in 33 states.

Greyhound proposes restructure

GREYHOUND LINES, the US long-distance bus operator in Chapter 11 bankruptcy pro*ceedings since* last June, has submitted a reorganisation plan which would give ownership of the company to its creditors, writes Nikki Tait.

Under the proposal, creditors would receive new common stock and $165m in new notes – the maximum amount of debt which Greyhound claims is prudent. The equity held by existing owners would be cancelled.

The plans would also require payment in full for amounts owed on the company's secured bank debt, real estate mortgages and various bus leases. All claims originating after the June 4 bankruptcy filing would also be paid in full.

The deal, according to Greyhound, would give 95 per cent of the initial equity value of the restructured company to *its creditors, with employees* holding a 5 per cent stake.

The new shares would trade publicly. Unsecured creditors, *who include owners of two* series of publicly-held bonds now in default, would receive pro rata amounts of the new *debt and equity securities.*

One major problem for Greyhound, however, is the long-running dispute with its *unions, and the question of* whether there may be back claims – a potentially hefty figure.

The company said it believed "the facts and the law in the labour dispute will sustain the position that there will be no *back-pay liability*".

Pathé announces $22.5m loss

By Alan Friedman in New York

PATHE Communications, the main corporate vehicle of Mr Giancarlo Parretti, the Italian financier who recently bought MGM/UA of Hollywood, yester*day released third-quarter* results showing a $22.5m loss, down from the $37.7m loss suffered in the third quarter of 1989.

The loss was struck on revenues of $73.9m for the 13 weeks to last September 29, down from revenues of $105.5m in the corresponding period of *1989. The company attributed* the decline in revenues to fewer films being released.

Pathé's loss for the first nine *months of 1990 amounted to* $2.9m, down from $54.6m in the first nine months of last year. Revenues were $214.8m, against $276.1m in the same period of 1989.

The company completed the $1.36bn takeover of MGM/UA on November 1.

Mr Parretti – who is considered *a controversial figure* because he is appealing a four-year prison sentence in Italy after being convicted last spring on fraudulent bankruptcy charges – was full of talk yesterday about "a new era for MGM".

Analysts fear, however, that Mr Parretti may find it difficult to raise sufficient cash to put the tattered MGM/UA back on track.

Domtar to shed another 300 white-collar jobs

Domtar, a big pulp and paper and packaging producer and North America's third largest wallboard manufacturer, is cutting 300 more white-collar jobs in Canada and the US because of continuing losses, writes Bob Gibbens in Montreal.

A special charge will be taken against the cuts, which will be across the board. The company has shed well over 1,000 white-collar jobs in the past year.

Domtar had a loss of C$60m (US$51.7m) in the first nine months and expects to see a further loss in the fourth quarter.

A *steep drop* in US housing stocks have driven wallboard prices to record lows, while pulp and newsprint prices are *poor.*

Brazil seeks to tighten bankruptcy regulations

By Victoria Griffith in Sao Paulo

PRESIDENT Fernando Collor de Mello of Brazil has signed a provisional law making it less attractive for companies to declare bankruptcy.

The government hopes the new law will prevent companies capable of paying their *debts* from seeking an easy way out of their troubles.

Brazil has seen a sharp *increase in bankruptcy* declarations over the past two months. Some 30 businesses sought protection from credi*tors in Sao Paulo in October.*

Under the new law, businesses seeking protection no longer have the right to pay just 12 per cent annual interest on their debt. From now on, interest rates will be set at levels agreed to by the company's creditors. Debt principal, moreover, will be indexed to inflation.

Companies declaring bankruptcy will also be forced to provide detailed information on their finances.

*Bankruptcies will be over*seen by the public ministry, which may request any financial document it considers necessary *to judge the business'* liquidity.

The Sao Paulo business community, however, believes the new surge in bankruptcy proceedings reflects a true liquidity crisis. According to Mr Romeu Trussardi Filho, president of the Business Association of Sao Paulo, interest rates are the main reason for the increase in bankruptcies.

Pemex forecasts $1bn net for year

PETROLEOS Mexicanos (Pemex), Mexico's state oil company, could make a $1bn profit this year following the climb in oil prices due to the Gulf crisis, director Francisco Rojas said, Reuters reports.

Rojas said Mexico's oil revenues had received a windfall of some $2bn because of Iraq's August 2 invasion of Kuwait. He said Pemex could end the year with net profits of more than $1bn.

Mitsubishi Corp to buy UCAR stake

By Karen Zagor in New York

UNION Carbide, the US chemicals group which recently surprised analysts with a modest reorganisation plan, yesterday said it expected to sell 50 per cent of its UCAR Carbon business for $232.5m in cash to Mitsubishi Corporation of Tokyo.

UCAR, a supplier of graphite electrodes to the steel industry which last year had sales of *$802m, will keep its current* management and workforce. Mitsubishi will give UCAR access to its international sales *force.*

UCAR, which is responsible for $321m of *Union Carbide's* consolidated debt, will also repay about $210m to Union Carbide when the deal closes. *Union Carbide is not liable for* the remaining $111m of existing debt of UCAR's foreign affiliates.

Union Carbide, whose third-quarter net income plunged 35 per cent, largely because of a steep increase in oil prices, *said the sale would result in a* non-recurring, after-tax book loss of between $70m and $90m. It said earlier it expected the loss to be partially off-set by the sale its 50 per cent stakes *in Kemet Electronics and Lin*care, which should bring in net income of about $40m.

Mr Robert Kennedy, Union *Carbide chairman and chief* executive, said joint ownership of UCAR would create a global alliance that would strengthen *the business considerably.*

In September, Union Carbide said it would use the proceeds from its asset sales to buy back *20.3m shares, or about 14 per* cent of its outstanding stock, at $17.25 a share. Shares in the company traded at $16¼, down $⅛, at midday yesterday in New York.

Canadian Marconi profit dives midway

CANADIAN Marconi, a large producer of avionics and military communications equipment, is feeling the full force of North American defence cuts and the closure of its specialised printed circuits plant.

For the first half-year to September 30, Canadian Mar*coni, which is 51.6 per cent* owned by General Electric, reported earnings of only C$162,000 (US$139,655) or 1 cent a share, against C$9.9m, or 42 cents, a year earlier, on sales of C$132m, against C$154m last time.

The latest period includes a special charge for the closure of the plant. The company is laying off more than 1,000 workers.

Canadian Marconi is trying to increase its commercial products business, but this will take some time.

COMMERCIAL PROPERTY

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INTERNATIONAL CAPITAL MARKETS

Spate of demand from stock lenders lifts gilts

By Deborah Hargreaves in London and Patrick Harverson in New York

THE market for gilt-edged securities in the UK rose by almost a full point yesterday before traders knew the results of the leadership contest in the Conservative party.

But it was the legal implications surrounding the issue of stock lending that gave more of a push to gilts yesterday than UK political machinations. Stock lenders were buying gilts to boost supplies in the event of any changes in the rules governing the practice.

This spate of demand pushed a long benchmark gilt up by ⅞ to 103⅞ to offer a yield of 11.19 per cent. It is unusual to see the market rally amid uncertainty on the political scene.

Some analysts speculated that, once the results of the leadership contest are clear, economic fundamentals point to a good buying opportunity for gilts. But, given the strength of the market's rise yesterday, it could see some consolidation in the next few days.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		13.500	09/92	103-18	+04/32	11.27	11.44	12.00
		9.000	03/00	88-00	+18/32	11.09	11.29	11.54
		9.000	10/08	88-08	+24/32	10.74	10.96	11.07
US TREASURY *		8.750	08/00	101-05	+08/32	8.33	8.40	8.61
		8.750	08/20	102-25	+10/32	8.49	8.54	8.75
JAPAN	No 119	4.800	6/99	85.1643	-0.063	7.57	7.81	7.79
	No 129	6.400	03/00	94.7407	-0.157	7.35	7.47	7.51
GERMANY		9.000	10/00	101.0500	+0.385	8.83	8.98	8.94
FRANCE	BTAN	9.000	11/95	95.7121	+0.256	10.13	10.25	10.13
	OAT	8.500	03/00	90.4300	+0.590	10.11	10.27	10.22
CANADA *		10.500	07/00	99.7500	-0.100	10.54	10.58	11.11
NETHERLANDS		9.250	11/00	100.9900	+0.310	9.09	9.17	9.18
AUSTRALIA		13.000	07/00	103.9851	+1.249	12.28	12.64	13.40

London closing, *denotes New York morning session
Yields: Local market standard — Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

GOVERNMENT BONDS

■THE GERMAN market was led upwards by strong futures activity where the price rose by almost a point — from 82.54 to 83.13. But traders could see little new demand in the market and attributed the strength of the futures price to houses taking aggressive positions in advance of the German bank holiday today.

There is currently some evidence of a switch out of the US Treasury market into some European bonds, and Germany is benefiting from this flow.

In the cash market, some investors sold bunds to switch to the new bond which was issued on Monday by the German Railways. The 9 per cent 10-year government bond was fixed at 100.88 — slightly lower than Monday's level of 100.94 — to yield 8.86 per cent. The German rail bond rose to 100.15-100.25 after having slipped back in early trading to 100.05-100.15.

■US Government bonds traded in a narrow range yesterday morning, ending the first half of the session with a modest rally after some early profit-taking. Turnover was light and is expected to remain so for much of the week, with many market operators expected to take Friday off for the Thanksgiving holiday.

At midday, the benchmark 30-year Treasury issue was up ⅛ at 102⅞, to yield 8.48 per cent, while at the short end the two-year bond was unchanged at 100⅛, yielding 7.60 per cent. The overall mood of the market was reported to be positive, if watchful of events in the Gulf and the oil price.

Federal funds once again refused to drop any nearer to the Federal Reserve's target rate of 7¼ per cent, in spite of Monday's aggressive intervention by the authorities. The Fed continued its market operations yesterday, arranging $2bn customer repurchase agreements with the rate at 7⅜ per cent, but Fed funds refused to budge immediately, finishing the morning unchanged at 7⅜ per cent.

The news that housing starts in October were down for the ninth month in a row had little impact on the market, which has for the time being discounted any fresh recession-related economic data. However, the housing starts figure was worse than expected, and the October level was the lowest since June 1982.

■THE Japanese market was fed on rumour yesterday as it oscillated within a narrow range. The market dropped in early Tokyo trading as the oil price rose and the Bank of Japan tightened monetary policy in response to poor money supply figures.

The drop in October's money supply to 11.8 per cent from 12 per cent in September was a smaller fall than had been expected.

In later trading, the key 119 bond rallied to a yield of 7.65 per cent on a rumour that the Bank of Japan would ease monetary policy. The BoJ pushed call money rates above eight per cent in a bid to reduce speculation of an early cut in interest rates.

World Bank issues HK$600m of bonds

THE WORLD BANK has issued HK$600m worth of fixed-rate bonds in Hong Kong, Reuter reports.

The five-year bonds carry a coupon of 9.5 per cent and were priced to yield 10 per cent.

The lead manager was Sanwa International and the co-lead managers to the issue were Paribas Asia and Schroders Asia.

About 20 banks are expected to subscribe to the bonds, an official with Sanwa International said.

This was the World Bank's third issue of Hong Kong dollar bonds in Hong Kong. The previous two issues were in April 1989 and in January this year. The proceeds of the issue will be swapped into other currencies.

FT/AIBD INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. — Latest prices at 8:10 pm on November 20

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABBEY NATIONAL 8 7/8 93	250	100⅛	100⅝		8.71
ALBERTA PROVINCE 9 3/8 95	600	102⅛	102⅝	+⅛	8.75
AUSTRIA 8 1/2 00	400	96	96⅛	-⅛	9.15
BANK OF TOKYO 8 3/8 96	100	96⅛	97		9.21
BELGIUM 9 1/8 92	400	101⅛	101⅝	-⅛	8.40
BFCE 7 3/4 97	150	94⅝	95⅛		8.89
BMP 8 5/8 94	300	100	100⅝	+⅛	8.60
BP CAPITAL 9 5/8 93	150	101⅞	102⅜		8.67
CANADA 9 96	1000	102	102⅛		8.50
[illegible]					

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
COUNCIL EUROPE 7 94 LFr	600	91⅛	92⅛		10.13
KREDIETCORP 7 93 LFr	1000	93	94		10.04
WORLD BANK 8 96 LFr	1000	92⅛	93⅛		9.89
AMRO BANK 6 1/4 92 Fl	150	94⅝	95⅛		9.73
RABOBANK 5 3/4 93 Fl	150	92⅛	93		9.67
ALBERTA PROVINCE 10 92 C$	500	97⅞	98⅛		11.40
BCE INC 9 5/8 93 C$	300	95⅝	96⅛	-⅛	11.72
BELL CANADA 10 5/8 99 C$	150	94⅛	94⅝	-⅛	11.69
BRITISH COLUMBIA 9 1/4 93 C$	150	95⅛	96		11.55
[illegible]					

DEUTSCHE MARK STRAIGHTS: [illegible]

FLOATING RATE NOTES: [illegible]

SWISS FRANC STRAIGHTS: [illegible]

	Issued	Bid	Offer	Chg. day	Yield
[illegible]					
SKANDINAVISKA ENSK 6 1/2 95					7.56
WORLD BANK 5 03	150	79⅛	80		
WORLD BANK 7 1/4 92	100	100	101		7.21

YEN STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
AUSTRIA 4 3/4 94	30000	93	93⅛		7.30
CANADA 4 3/8 92	80000	95⅝	95⅞		7.35
CREDIT FONCIER 5 1/4 94	20000	92⅛	92⅝		7.56
DENMARK 7 95	40000	98⅜	99⅛		7.31
EIB 4 5/8 94	40000	92	92⅛	+⅛	7.31
GENERAL ELECTRIC 5 3/4 93	35000	95⅝	96⅛		7.82
INTER AMER DEV 7 1/4 00	30000	99⅝	99⅞	-⅛	7.30
ITALY 5 3/4 92	150000	98⅛	98⅜		7.35
KANSAI ELEC PWR 4 5/8 94	60000	91⅞	92	+⅛	7.41
NIPPON TEL & TEL 5 7/8 96	50000	93⅛	93⅝		7.36
NORWAY 5 1/8 95	50000	91⅞	92⅛		7.35
SWEDEN 5 5/8 95	20000	92⅛	93⅛	+⅛	7.46
WORLD BANK 6 3/4 00	50000	96⅛	96⅝		7.25

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Prem.
[illegible]					
EASTMAN KODAK 6 3/8 01	300	50.67	96¾	97¼	+13.27
GOLD KALGOORLIE 7 1/2 00	65	1.0554	68½	69½	+30.11
GOODYEAR TIRE 6 7/8 03	150	80¼	47¾	49¼	
GRACE (WR) 6 1/4 02	150	42⅛	67¾	68¾	+26.14
GRAND MET 6 1/4 02 £	100	6.58	92⅛	93⅛	+3.44
HAWLEY 6 02 PREF	400	1.91	92⅛	93⅞	+30.17
HILLSDOWN 4 1/2 02 £	150	4.16	103	104⅛	+68.03
INTL PAPER 5 3/4 02	200	68⅛	84	85	+15.95
LAND SECS 6 3/4 02 £	84	6.72	83⅛	84⅛	+6.36
MITSUBISHI BK 1 3/4 02	300	2727.1	77⅛	79⅛	+0.04
OGDEN 6 02	85	39.077	62⅛	63⅛	+26.31
PACIFIC DUNLOP 6 3/4 97	75	3.749	102	103	+1.96
TEXAS INSTRUMENTS 2 3/4 02	300	82⅞	78⅛	79⅛	
THORN EMI 5 3/4 04 £	103	7.45	103⅞	105	+21.49

* No information available - previous day's price
‡ Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Asea in mortgage deal worth SKr2.9bn

By John Burton in Stockholm

ASEA, the Swedish electrical engineering group, has mortgaged most of its hydro-power assets to the government-affiliated National Pension Funds in a SKr2.9bn deal.

Asea joins a number of Swedish companies in selling or mortgaging electric power resources, with an option to repurchase them, in order to raise investment capital.

Asea will have an option to buy back the hydro power stations between the years 2007 and 2015. The repurchase price, in fixed monetary value, will be approximately 70 per cent of the sales value.

The power assets will be taken over by a newly formed company — Nybrovikens Kraft — in which Asea will have 53 per cent of the voting rights.

The deal will help Asea finance its SKr4.3bn (US$) purchase of the Swedish holding group Incentive in April, and its contribution of SKr1.6bn to increase the share capital of Asea Brown Boveri, half owned by Asea, last year.

The National Pension Funds concluded a similar deal with Svenska Cellulosa in September, acquiring half of its hydro power assets for SKr5bn. Investment returns from hydro power facilities usually enjoy stable growth exceeding inflation.

Greece offers drachma issues linked to Ecu

By Kerin Hope in Athens

GREECE is offering two drachma bonds index-linked to the Ecu in the fifth such issue this year.

The two-year bond is at 10.9 per cent and the three-year bond at 11 per cent.

Both are tax-free and are being issued at par with a face value in Ecu.

Funds imported from abroad to buy the new bonds can be freely converted and re-exported when the purchaser sells or the issue expires, according to the Bank of Greece.

Interest and final payment are based on the Ecu but will be made in drachmas at the prevailing exchange rate on payment day. The bonds may also be traded on the Athens stock exchange.

The bank pointed out that the D-Mark represents over 30 per cent of the Ecu's value and that the bonds provide "the best possible protection against currency fluctuations". The four previous Ecu-linked issues raised over Dr300bn ($2bn), bank officials said. They hope to raise at least Dr100bn with the new issue, which is being made after a five-month gap.

Greece wants to raise about Dr650bn over the next six weeks, if possible without recourse to external markets, in order to cover end-of-year expenses.

Taiwan bank to issue bonds for property loans

THE state-owned Land Bank of Taiwan plans to issue T$70bn of land bonds between January and June 1991 for loans to buyers of apartments and land, bank president Lin Tailung said, Reuter reports.

He said the bank would issue the bonds in several tranches and fix the interest rates of each issue later. The bonds will have maturities between three and seven years.

The bank last year issued T$15.3bn of similar bonds for the same purpose, with maturities between two and three years. The new bonds will be sold domestically.

Samsung to issue depository receipts

SAMSUNG, South Korea's largest firm in terms of sales, received the government's approval to issue $40m of depository receipts for US and European investors, company officials said yesterday, AP-DJ reports.

Samsung Co, the trading arm of the Samsung Business Group, received the approval of the Ministry of Finance on Monday to offer overseas depository receipts, or the receipts for the shares of a foreign company, in mid-December.

The company will launch a road show for European investors later this month and for US investors early next month. The depository receipts will be listed in the Luxembourg stock exchange in Europe and placed privately among investors in the US.

Dongyang Securities and CS First Boston will work as lead-managers for the issue.

Tel 0722 333116 (office hours)
For instant attention: 0831 738103

INTERNATIONAL CAPITAL MARKETS

Canadian dollar issues in demand from re-investors

By Simon London

TWO CANADIAN dollar bond issues were launched into the international bond market yesterday, as more borrowers sought to tap demand from investors looking to re-invest in the sector rather than face a currency loss on maturing paper.

Redemption of outstanding bonds amounts to C$370m this month and C$550m in December. However, the Canadian dollar has depreciated against most European currencies during the past two years and many investors would rather invest in new paper than crystallise a currency loss. In September 1989 the Canadian dollar stood at DM1.68, against DM1.27 yesterday.

Société Quebecoise d'Assainissement des Eaux, the Canadian water company, came with a C$100m offering via Wood Gundy, guaranteed by the Province of Quebec. The five-year paper carries a coupon of 11⅝ per cent and was priced to yield 90 basis points over Canadian government bonds.

Outstanding bonds issued directly by the Province of Quebec yield about 80 basis points over government paper. The deal traded at less 1⅞ bid, a discount equivalent to full fees.

ABB Finance, a subsidiary of Asea Brown Boveri, the Swiss/Swedish engineering concern, came with a C$100m deal lead-managed by Bankers Trust International.

With a coupon of 11½ per cent, the two-year paper was priced to yield 65 basis points over Canadian government bonds – a spread identical to Monday's C$125m five-year issue by GECC. The deal traded at less 1⅛ bid, a discount equivalent to full fees.

The ABB issue was swapped for the borrower by Bankers Trust. However, elsewhere in the Canadian dollar sector, currency swap opportunities remain scarce. As with the Australian dollar sector, where a heavy flow of redemptions fuelled new issuance over the summer months, this could limit access to borrowers with a need for the unswapped currency.

Also in the market yesterday, Crediop Finance offered investors a DM30m deal carrying an exceptionally high 16 per cent coupon. The two-year deal, lead-managed by Merrill Lynch, is based on a structure whereby redemption is linked to the lira/D-Mark exchange rate. However, with the currencies linked in the European exchange rate mechanism, the exchange rate risk should be low compared with some comparable deals.

Elsewhere, Citicorp's £400m mortgage-backed deal, launched via Barings on Monday, stayed in syndicate, to the surprise of some observers. The lead manager said that the syndicate would probably be broken today, leaving the bonds free to find a market level.

INTERNATIONAL BONDS

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Itoki Kosakusho Co.♦	100	(4⅞)	100	1994	2¼/1½	Nomura Int.
Skopbank♦	40	zero	93.725	1991	⅞/½	Mitsubishi Finance
Heller Finance‡♦	70	(a)	100.05	1992	18Bp	Fuji Int.Fin.
CANADIAN DOLLARS						
SQAE♦	100	11⅝	101.65	1995	1⅞/1¼	Wood Gundy Inc.
ABB Fin.Inc.♦	100	11½	101⅛	1992	1⅛/⅝	Bankers Trust Int.
DM-MARKS						
Crediop Finance♦(b)	30	16	100.25	1992	1¼/⅞	Merrill Lynch AG
SWISS FRANCS						
GECC♦	125	7⅝	102	1995	-	UBS
GUILDERS						
European Investment Bank♦	300	9.25	100.90	2000	1/⅝	Rabobank BA

♦Final terms. ¶With equity warrants. ‡Floating rate note. a)Libor + 50Bp. b)Redemption linked to Lira/DM rate.

First derivative created on Eurotrack

BANKERS TRUST announced the launch of warrants on the International Stock Exchange's new Eurotrack index yesterday, in a move that creates the first derivative on the index, writes Deborah Hargreaves.

The warrants are launched about a month after the introduction of the index, which includes major European stocks outside the UK. They are seen by the exchange as a useful way of encouraging wider use and recognition of Eurotrack.

The warrants are priced in D-Marks, as is the index, and will be listed on the Frankfurt stock exchange but traded in the over-the-counter market. London's major derivatives exchanges, currently discussing a merger, are considering the introduction of derivatives on Eurotrack when there is enough demand for them.

Bankers Trust sees demand coming from UK institutions that want exposure to Europe without having to buy from individual markets, as well as retail investors in continental Europe.

The 250,000 call warrants – options to buy – run for two years and cost DM48.5 each. They can be exercised at approximately DM1,000.

Japanese disclosure rules change in December

By Emiko Terazono in Tokyo

RULES requiring investors to disclose shareholdings of more than 5 per cent of a listed Japanese company's shares will become effective from December 1, the Japanese Ministry of Finance has announced.

The 5 per cent rule, under the securities and exchange law revised last June, is aimed to curb cornering of stocks, thus protecting shareholders. It requires investors holding 5 per cent or more of shares in a publicly owned company to report the purpose, contracts and funding regarding the purchase. The reports will be available to the public at the ministry and stock exchanges.

Bonds which are convertible into equity or carry equity-purchase warrants are to be included. Investors will have to include holdings by relatives, and the purchaser, regardless of ownership transfers, will be considered the owner. Although institutional investors, such as insurance companies, will only be required to report in regular quarterly reports, other stockholders which fail to report by December 7 are liable to face up to one year in prison, or a fine of up to Y1m.

The ministry has printed 70,000 pamphlets, distributed to securities houses and local finance administrations, to explain the changes.

The ministry is trying to enforce the rule by demanding reports from groups of investors buying stock, and from shareholders who have had a rise or fall of 1 percentage point or more in their shares.

Despite the ministry's efforts, securities houses are sceptical. One trader commented that with market conditions sluggish, and main speculators refraining from activity, he did not see the rules coming into use.

The "10 per cent rule" implemented in 1988, by which listed companies were requested to disclose the names of investors holding more than 10 per cent of their stock, failed to prevent share cornering, as speculative investors broke their purchases into small accounts.

Many rows on the way to market

Lucy Kellaway charts an argument on a matter of principle

It never was going to be easy to set up a single market for investment services in Europe.

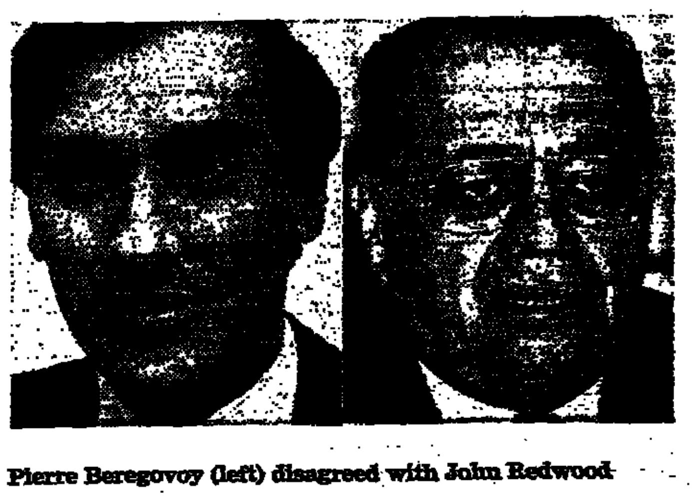
Some countries barely have a stock market – let alone one in financial futures – while those few that have a sophisticated investment industry have markedly different ideas about how it should be run.

However, the Italian President of the European Council is determined to establish such a single market before its time in the chair runs out at the end of the year.

Next month finance ministers will meet in Milan and twice in Brussels in a desperate effort to reach agreement on the investment services directive.

Progress so far has not been encouraging.

At last Monday's meeting of finance ministers it quickly became clear that there was no point in talking about the finer details, as on a fundamental matter of principle Mr John Redwood, the UK's trade and industry minister, stuck in his heels on one side, and on the other Mr Pierre Beregovoy, the French finance minister, did likewise.



Pierre Beregovoy (left) disagreed with John Redwood

The discussions should be helped by the fact that they cover familiar territory; the investment services directive is a carbon copy of the second banking directive, which was agreed at the end of last year.

The idea is to devise a licence for all practitioners which, once granted in one member-state, would allow that country to do business anywhere in the Community.

The firms would be regulated by the authorities in their home country, which would abide by rules laid down in a second directive on capital adequacy.

The discussions are complicated by the broadness of the subject. Investment services cover a diverse mixture of businesses – stockbroking, financial futures, options, some money market instruments, swaps and so on. Moreover, the directive is more ambitious than the second banking directive as it seeks to break open the cosy clubs run by organised exchanges in member-states, allowing anyone with a licence to join.

On about a dozen issues member-states have found themselves in deep disagreement. On one side are the liberals, led by the UK, supported by the Netherlands and, spasmodically, Germany. They are against making the market too bureaucratic, and suspicious of formal arrangements and restrictions. On the other side France, Belgium and the southern states want firm rules to be laid out in advance, giving the market little leeway to reach its own conclusions. Neither side wants to make any more than the minimum changes to the way they do business now.

The idea of opening securities exchanges to all comers is also proving a headache. Most agree that it is unrealistic to expect exchanges with only a limited amount of space to take in scores of new members, and most think that if member states ensure a gradual increase in the capacity of the market, that would be sufficient.

The most visible sign of this difference is in the approach to regulated and unregulated, or over-the counter, markets. The French have recently upset the UK and the free-marketeers by suggesting that in certain securities trading should only be permitted on regulated exchanges. France claims to be worried about the growth of over the counter markets, arguing that they do not give the investor adequate protection.

This is unacceptable to the free-marketeers and the commission itself. They see it as a blunt attempt to protect the French stock exchange from new competitors. Some 30 per cent of business in French shares in done through SEAQ International in London. The liberals also reject the notion that investors get a better level of protection on organised exchanges. Investors who have lost their shirts recently in Polly Peck shares will see that point.

But the French proposal is not well defined: it is not clear what sort of market counts as regulated, nor what sort of securities it would cover.

A way out would be to allow trading on an unregulated exchange so long as the investor had given its permission. Such a compromise is not proving easy to define: anything more than a loose verbal agreement between dealer and client would be too restrictive for the UK, whereas that kind of agreement is exactly the kind of thing that France would like to stamp out.

Then there are problems over price transparency. Again the dirigists want full publication of every deal at the time of execution, whereas the UK – which allows big deals to go unpublished, though they are reported to the market's authorities – argues that any such system would mean that market makers making big trades were penalised by being unduly visible.

The idea of opening securities exchanges to all comers is also proving a headache. Most agree that it is unrealistic to expect exchanges with only a limited amount of space to take in scores of new members, and most think that if member-states ensure a gradual increase in the capacity of the market, that would be sufficient.

However, the UK is not happy with this compromise. It feels that privately-owned exchanges such as the London International Financial Futures Exchange cannot be forced to increase their capacity: as long as these exchanges are not discriminating against new hopefuls on the basis of nationality, that is enough.

It is not just the total number of members but their type that is causing controversy. In six out the the EC's 12 markets, banks are not allowed direct membership of stock exchanges. These countries argue that to protect bank depositors from securities business, separate subsidiaries would need to be set up before membership could be contemplated.

The commission argues that since the second banking directive provided for banks to do investment business, it is illogical to ban them from exchange membership. Moreover, it seems unfair to require banks to put up further capital to set up a new subsidiary, when they have already put up the initial amount at home.

Then there are more technical matters. The commission is shortly to propose a directive on harmonising compensation funds. But until it has done so what mention, if any, should be made of the issue in the investment services directive?

The Italians are going to have their work cut out if they are to settle these matters by the end of the year. And even if they manage it, the EC's financial experts cannot expect a well-earned holiday. The pressure will then be on to agree on the Capital Adequacy Directive. And that could be harder still.

INTERNATIONAL EQUITY ISSUES

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

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In conjunction with the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Tue Nov 20 1990 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1990 to date	Mon Nov 19 Index No.	Fri Nov 16 Index No.	Thu Nov 15 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (195)	712.74	+1.2	15.06	6.70	8.12	34.18	704.43	691.95	689.47	852.96
2 Building Materials (26)	961.37	+1.8	15.13	6.36	8.13	41.09	944.05	926.43	912.79	1018.26
3 Contracting, Construction (34)	1143.05	+0.6	16.47	7.01	7.88	59.48	1135.69	1116.77	1116.62	1378.11
4 Electricals (10)	1886.26	+1.3	14.87	7.14	8.23	99.22	1861.98	1821.06	1804.91	2426.03
5 Electronics (26)	1623.72	+1.3	10.38	5.29	13.11	60.29	1603.25	1583.08	1584.95	1877.50
6 Engineering-Aerospace (8)	409.38	+0.9	16.38	5.95	7.32	17.27	405.67	399.58	396.35	0.00
7 Engineering-General (47)	353.89	+0.5	16.39	7.30	7.35	18.02	352.25	347.71	348.26	0.00
8 Metals and Metal Forming (8)	383.07	−1.1	24.20	8.92	5.08	24.83	387.32	392.91	393.66	454.90
9 Motors (13)	290.28	+1.2	17.21	8.29	6.77	17.45	286.84	276.37	271.74	349.02
10 Other Industrial Materials (23)	1192.59	+1.7	14.14	6.84	8.17	62.04	1172.76	1141.50	1144.84	1582.49
21 CONSUMER GROUP (177)	1200.74	+0.4	10.15	4.27	12.20	35.49	1195.81	1182.27	1178.68	1233.11
22 Brewers and Distillers (22)	1533.19	+0.1	10.20	3.86	11.88	33.88	1531.67	1505.09	1493.49	1392.29
25 Food Manufacturing (19)	1013.36	+0.5	11.54	4.86	10.68	31.63	1008.14	996.36	993.47	1084.45
26 Food Retailing (16)	2255.76	+1.0	9.67	3.29	13.49	58.72	2232.82	2213.69	2214.35	2223.96
27 Health and Household (18)	2384.47	+0.6	7.46	3.18	15.90	59.14	2369.76	2366.33	2372.95	2496.39
29 Leisure (31)	1231.51	+0.1	12.38	5.40	9.82	44.64	1230.19	1212.60	1202.53	1552.60
31 Packaging & Paper (12)	497.69	+1.7	12.93	6.99	9.50	23.79	489.21	478.88	478.86	532.24
32 Publishing & Printing (13)	2872.71	−1.4	12.31	6.54	10.20	139.88	2914.03	2864.97	2872.18	3581.51
34 Stores (34)	816.87	+0.6	10.46	4.46	12.42	25.63	812.39	799.69	794.47	749.74
35 Textiles (12)	418.93	+0.8	14.25	8.47	8.90	26.32	415.52	415.92	410.33	498.77
40 OTHER GROUPS (107)	977.41	+0.7	12.80	5.88	9.48	33.65	970.32	955.95	952.30	1107.56
41 Agencies (15)	924.56	−1.7	11.53	3.64	10.50	23.93	940.23	948.66	958.38	1492.26
42 Chemicals (24)	1027.35	+1.4	13.04	6.54	9.04	50.79	1013.58	1001.92	996.22	1168.65
43 Conglomerates (14)	1266.85	+1.1	13.42	7.91	8.94	41.19	1252.95	1225.89	1215.74	1573.12
44 Transport (15)	1815.71	+0.7	14.14	5.56	8.73	72.05	1802.30	1762.47	1745.47	2103.29
46 Telephone Networks(3)	1135.00	+1.1	11.70	4.41	11.13	26.09	1122.71	1099.96	1094.79	1098.10
47 Water(10)	2031.88	+1.1	14.28	6.67	7.94	68.12	2009.21	1973.13	1964.69	0.00
48 Miscellaneous (26)	1484.10	−0.4	12.60	6.08	9.22	63.59	1490.41	1487.54	1493.42	1839.55
49 INDUSTRIAL GROUP (479)	1013.57	+0.7	12.04	5.30	10.18	35.60	1006.75	992.86	989.49	1112.34
51 Oil & Gas (21)	2286.04	+1.6	9.78	5.50	13.35	95.39	2250.45	2229.25	2239.52	2165.86
59 500 SHARE INDEX (500)	1118.02	+0.8	11.70	5.33	10.56	40.42	1108.97	1094.42	1092.05	1200.68
61 FINANCIAL GROUP (102)	709.74	+1.0	–	6.72	–	34.02	703.04	697.75	689.77	772.11
62 Banks (9)	761.84	+1.2	21.47	7.56	6.10	42.00	752.77	739.80	727.23	798.00
65 Insurance (Life) (7)	1276.49	+0.4	–	6.02	–	55.82	1271.06	1286.94	1276.77	1271.87
66 Insurance (Composite) (6)	609.08	+0.7	–	7.02	–	32.08	604.74	603.61	598.99	639.85
67 Insurance (Brokers) (8)	948.03	−1.2	7.98	6.79	16.41	48.39	959.39	961.04	935.93	1067.10
68 Merchant Banks (7)	345.42	+2.1	5.61	5.93	23.75	14.24	338.30	335.02	334.47	421.36
69 Property (44)	972.20	+1.6	7.62	5.03	17.35	30.55	956.61	947.41	941.23	1159.80
70 Other Financial (21)	243.07	−0.3	11.63	7.42	11.05	13.00	243.91	243.71	243.06	320.48
71 Investment Trusts (70)	1004.25	+0.3	–	4.01	–	28.74	1001.48	989.79	988.37	1211.36
91 Overseas Traders (5)	1178.98	+1.4	12.11	7.83	9.83	70.90	1162.27	1110.91	1075.03	1384.65
99 ALL-SHARE INDEX (677)	1017.38	+0.8	–	5.51	–	38.48	1009.06	996.49	992.83	1098.59

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Nov 19	Nov 16	Nov 15	Nov 14	Nov 13	Year ago
FT-SE 100 SHARE INDEX‡	2115.2	+19.3	2123.5	2095.1	2095.9	2068.0	2060.0	2046.0	2056.0	2185.1

FIXED INTEREST

PRICE INDICES	Tue Nov 20	Day's change %	Mon Nov 19	xd adj. today	xd adj. 1990 to date
British Government					
1 Up to 5 years	119.47	+0.17	119.26	–	10.71
2 5-15 years	125.38	+0.59	124.65	–	11.95
3 Over 15 years	126.16	+1.03	124.87	–	10.78
4 Irredeemables	141.12	+0.82	139.98	–	13.46
5 All stocks	125.31	+0.48	124.71	–	11.55
Index-Linked					
6 Up to 5 years	157.36	+0.08	157.24	–	3.04
7 Over 5 years	143.67	+0.35	143.17	–	3.45
8 All stocks	144.58	+0.32	144.11	–	3.42
9 Debentures & Loans	99.24	−1.50	100.75	–	10.99
10 Preference	72.84	+0.46	72.51	–	6.44

AVERAGE GROSS REDEMPTION YIELDS		Tue Nov 20	Mon Nov 19	Year ago (approx.)
British Government				
1 Low Coupons	5 years	10.17	10.23	10.11
2	15 years	10.57	10.68	9.81
3	25 years	10.59	10.73	9.74
4 Medium Coupons	5 years	11.17	11.25	11.27
5	15 years	11.03	11.15	10.18
6	25 years	10.94	11.08	9.84
7 High Coupons	5 years	11.29	11.37	11.38
8	15 years	11.23	11.36	10.39
9	25 years	11.18	11.34	9.970
10 Irredeemables†		10.83	10.92	9.81
Index-Linked				
11 Inflation rate 5%	Up to 5yrs.	3.83	3.86	3.72
12 Inflation rate 5%	Over 5 yrs.	4.19	4.21	3.68
13 Inflation rate 10%	Up to 5 yrs.	2.51	2.53	2.82
14 Inflation rate 10%	Over 5 yrs.	4.00	4.02	3.50
15 Debs & Loans	5 years	13.69	13.37	12.59
16	15 years	13.18	12.88	12.12
17	25 years	12.73	12.51	12.12
18 Preference†		12.92	12.98	10.78

‡Opening Index 2095.1; 9 am 2103.3; 10 am 2104.8; 11 am 2120.6; Noon 2121.2; 1 pm 2116.6; 2 pm 2115.6; 2.30 pm 2115.4; 3 pm 2113.2; 4.10 pm 2116.5; (a) 11.14am (b) 8.30am † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 35p.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	81	0	5
Corporations, Dominion and Foreign Bonds	5	0	16
Industrials	341	259	947
Financial and Properties	178	110	454
Oils	36	19	36
Plantations	2	2	6
Mines	31	12	109
Others	69	46	89
Totals	743	448	1,662

LONDON RECENT ISSUES

EQUITIES

Issue Price	Am'nt Paid up	Latest Renunc Date	1990 High	1990 Low	Stock	Closing Price	+or -	Net Div	Times Cov'd	Gross Yield	P/E Ratio
155	F.P.	–	160	155	‡Brabant Resources £1	155	−4	–	–	–	–
2	F.P.	–	4½	3	Finlan Group 1p	3		–			
–	F.P.	–	22	20	‡MMI 1p	22		†1.0	2.4	6.1	8.5
†	F.P.	–	17	8	‡Paramount 2½p	9½		–	–	–	–
†	F.P.	–	53	31	‡Pelican 20p	35	+4	–	–	–	–
§100	F.P.	–	96	78	Smaller Cos. Inv. Tst50p	78	−2	–	–	–	–
–	F.P.	–	23	19	Do. Warrants	20		–	–	–	–
225	F.P.	–	245	190	‡Standard Platform 10p	190		–	–	–	–
†	F.P.	–	126	115	Unichem 10p	115	−3	R4.5	2.5	5.2	8.6

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc Date	1990 High	1990 Low	Stock	Closing Price £	+ or -
100	F.P.	-	101	63	‡Bluebird Toys 12pc Cv. Uns. Ln. 2005	63xd	
‡	Nil	29/11	3pm	¼pm	‡Breemaker Cv. Rd. Prf. 70p	¼pm	−1¼
100p	F.P.	28/9	102p	91p	Perkins Foods 8p (Net) Cv Rd PF	98p	
100p	F.P.	-	121p	106p	Reckitt & Colman 9.5pc Cv Bds 2005	119p	−½
100	F.P.	-	110½	101¼	Tesco Capital 9pc Cnv. Cap. Bd. 2005	106¼	−⅛
100p	F.P.	-	105p	43p	Wyndham Group 9.375pc Cn.Pf	43p	−7

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc Date	1990 High	1990 Low	Stock	Closing Price p	+ or -
11	Nil	–	2pm	¼pm	Cauldon Group 5p	2pm	
285	Nil	21/12	218pm	63pm	Eurotunnel Package	150pm	−13
280	Nil	–	24pm	17pm	Low (Wm)	17pm	
20	Nil	–	¼pm	¼pm	Norton Group 12.5p	¼pm	
10	Nil	–	¼pm	¼pm	‡Propeller 1p	¼pm	
1	Nil	27/11	½pm	½pm	‡Property Trust 1p	½pm	
100	Nil	–	26pm	16pm	Unichem 10p	16pm	−2
58	Nil	–	¼pm	¼pm	Vinas Hldgs.	¼pm	

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. q Earnings based on preliminary figures. s Dividend and yield exclude special payment. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990-91. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1990. N Dividend and yield based on prospectus or other official estimates for 1989/90. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ¶ Issued by tender. ‡ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. †† Reintroduction. ‡ Unlisted securities market. ° Third Market. ♦ Issued in connection with reorganisation, merger or takeover.

TRADITIONAL OPTIONS

- First Dealings Nov. 12
- Last Dealings Nov. 23
- Last Declarations Feb. 21
- For settlement March 4

For rate indications see end of London Share Service

Calls in Amstrad, Brent Walker, Lovell (YJ), Midland Bank, Monument Oil & Gas, Premier Cons and Tuskar Res. Put in Brent Walker. Put and call in Next.

LONDON TRADED OPTIONS

TURNOVER in UK futures and options markets picked up yesterday as the squeeze on the underlying market continued to force securities houses into the derivative markets to cover their short positions.

The December FT-SE 100 index contract traded at a strong premium to the cash market throughout the session. This was caused partly by local traders, who were still said to be short after last week's buying by institutions.

In addition, the strength of sterling led to some hopes that interest rates could be cut in the event of a victory by Mrs Margaret Thatcher, the prime minister, in the Conservative party leadership contest.

There were signs towards the close, however, that the rally may have run out of steam and some brokers said the futures market may open lower today, whatever the outcome of the Conservative party leadership contest.

This view was reinforced in the traded options market, where November and December 2,050 and 2,100 puts were actively bought, indicating that the market could fall back. The December FT-SE 100 index finished at 2,150, up 23 points on the day and 34 points above the cash index. According to brokers' calculations, December should be 15 only points over the cash index, if future dividend payments and the cost of finance are taken into consideration.

Traded options had a busier session with investors buying index puts to give protection against a fall in the stock market. But there was also active interest in calls in selected stock options, particularly British Steel and British Gas. Total turnover was 31,361 option contracts, up by a fifth and was weighted towards calls. The FT-SE index traded 10,694 with the December 2,100 puts the most active. British Steel traded 2,468 and British Gas 1,359.

Option		Calls Jan.	Calls Apr.	Calls July	Puts Jan.	Puts Apr.	Puts July
Alld Lyons (*483)	420	66	83	89	3½	6½	11
	460	34	54	60	13	18	24
	500	14	32	38	32	36	43
ASDA (*131)	120	15	20	25	4	7	9
	130	9	15	20	8½	12	14
	140	5	10	14	15	18	19
[illegible]							

Option		Calls Jan.	Calls Apr.	Calls July	Puts Jan.	Puts Apr.	Puts July
Trafalgar (*167)	160	16	24	26	15	22	28
	180	10	16	17	28	33	40
Utd. Biscuits (*320)	300	32	39	45	5½	12	14
	330	15	20	29	19	26	28
Unilever (*653)	650	37	57	72	27	32	48
	700	17	35	48	57	63	70
[illegible]							

Option		Calls Dec.	Calls Mar.	Calls Jun.	Puts Dec.	Puts Mar.	Puts Jun.
Amstrad (*68)	60	8½	13	16½	1½	4	5½
	70	3½	8	10	5	9	9½
Barclays (*374)	360	–	43	48	–	21	28
	390	–	27	35	–	38	42
Blue Circle (*211)	200	17	30	32	5	10	14
	220	5½	18	22	14	19	24
[illegible]							

UK COMPANY NEWS

Babcock advances 6% to £21m

By Jane Fuller

BABCOCK International, the engineering group which demerged from FKI last year, improved interim pre-tax profit by 6 per cent to £21.35m in spite of the halting of a £158m Iraqi power station project.

The £1.24m profit increase in the six months to September 30 was made after exceptional costs totalling £1.75m. These represented the redundancy bill for 200 workers involved in the Iraqi order for boilers, and the write down in value of a 14.4 per cent stake in Sunleigh, a USM-quoted maker of golf gear.

Lord King of Wartnaby, the chairman, said the group had a high level of confirmed work for this year and next. Demand was particularly strong from customers involved in oil and gas production, water treatment and pollution control.

Mr Oliver Whitehead, chief executive, said the cost of work on the Al Anbar power station orders had been contained within the £27m received from the Iraqis.

Group turnover grew by 19 per cent to £352.14m (£295.15m) with all the divisions, except the Australian operation which was sold in the summer, showing an improvement.

Although the biggest operating profit contributor appeared to be South Africa, with £4.54m, the £3.2m increase in interest received was largely attributed to cash management in the energy and manufacturing division.

Mr Whitehead argued that this mitigated the fall in that division's profit from £5.68m to £2.88m. "The starting of new contracts meant that the profit realised was less but cash generation was very good."

Construction and process plant engineering improved profit to £3.85m (£2.61m). Facilities management – Babcock Thorn's contract to run the Rosyth Royal Dockyard – slipped to £4.44m (£4.89m). Claudius Peters, the German subsidiary, improved its contribution by more than 50 per cent to £1.53m.


Lydia van der Meer

Lord King: a high level of work confirmed particularly from the oil and gas and pollution control sectors

Mr Erik Porter said the group had £55m cash compared with £76m at the year-end. The Crawley office had been bought for £17m.

Earnings per share, fell to 3p (3.2p). The interim dividend is held at 1.2p.

● COMMENT

Babcock was reassuring about its relative insulation against recession, for example, through work related to repairs and pollution control. But there are two worries which have nothing to do with recession: one is the perennial problem of how to fill the huge Renfrew factory, traditionally dependent on making power station boilers, the other is the Rosyth dockyard. The management was at pains to say that orders were expected for Renfrew that would soon restore it to full capacity, but questions remain over whether this can be maintained in the longer term. At Rosyth, there are concerns about defence spending cuts and next year's renegotiation of the management contract. On the plus side, the orders inflow is strong and the group has cash to spend on acquisitions. A forecast full-year pre-tax profit of about £46m (£42.6m last time) gives a prospective multiple of just over six. Yesterday's closing price of 40p is supported by a 10 per cent yield, but the day's 3p rise was probably enough.

Scantronic suffers interim drop to £2m

By Andrew Hill

INCREASED interest charges, local authority spending cuts and poor general trading conditions combined to reduce interim pre-tax profits at Scantronic Holdings, the manufacturer of security products, from £3.1m to £2.02m in the six months to September 30.

However, the group's attributable profits were up sharply at £4.26m (£1.58m) because of the extraordinary gain – £3.15m after costs – from the sale of Scantronic's European wholesale distribution activities to Gardiner Group, which helped reduce gearing.

Scantronic warned in October that its pre-tax profits for the year would not improve on the 1989-90 figure of £6.54m.

The shares, 20 per cent of which are owned by Automated Security (Holdings), were unchanged at 50p yesterday, less than half the price before the profit warning.

Undiluted earnings per share slipped from 5.28p to 3.33p, but as forecast in October, Scantronic declared an interim dividend of 0.79p (0.715p).

Mr Chris Brookes, Scantronic's chief executive, said yesterday that the company had already taken about £2m from its continuing cost base by shutting down operations in Scandinavia and Italy at a one-off cost of £1m.

"We feel we have got the situation well under control, and the balance sheet is very healthy with gearing of 35 per cent.

"I'm not saying that the next six months are going to be the rosiest time in the company's history, but I think we are very well-placed to battle it out," he said yesterday.

Turnover in the first six months of the year rose 25 per cent to £24.8m (£19.9m) but operating costs increased 36 per cent to £22.4m (£16.5m).

Interest charges rose from £609,000 to £988,000.

Erskine House down by £1.1m as demand weakens in UK

By Andrew Hill

INTERIM PROFITS at Erskine House slipped from £7.63m to £6.52m in the six months to September 30, as the office equipment distributor sought to offset weakening demand in the UK and US.

Mr Brian McGillivray, Erskine's chairman, said yesterday: "It has been more difficult to get cost reductions introduced in the US without risking serious disruption."

He said one problem was persuading the management of some US subsidiaries of the virtue of cutting sales forces to improve efficiency and profits.

US turnover was slightly down at £56.5m (£59.6m), but profits were hit by increased costs, particularly on the service side, and fell from £8.05m to £5.19m.

That amounted to a drop of 20 per cent, even after stripping out profits of £1.2m from the sale of part of Erskine's lease portfolio.

The group figures were also hit by the £400,000 adverse effect of currency translation.

Cost reductions and productivity improvements helped Erskine's UK activities push up operating profits from £2.83m to £3.63m on much lower sales of £39.8m (£52.1m). The German subsidiaries made £775,000 (£499,000) on sales of £4.48m (£2.79m).

Erskine's turnover in the first half was down from £114m to £101m. Earnings per share slipped 29 per cent from 9.5p to 6.7p because of preference dividend payments. Erskine maintained its interim dividend at 2.3p.

Mr McGillivray said net borrowings had been reduced from £51m to £41m – or 42 per cent of shareholders' funds – since the end of March, and he hoped cash generated by the existing operations would help reduce gearing further.

Sales of new machines in the UK dropped 10 per cent and demand for photocopiers was 3 per cent lower. In the US machine sales were down by 2 per cent.

"In the UK at the moment you have got some sign of a degree of stabilisation," said Mr McGillivray although he warned against reading too much into monthly figures on copier sales and servicing.

Erskine's shares, which dropped from 169p after a profit warning in April, were unchanged at 50p yesterday.

● COMMENT

Erskine obviously lost a lot of friends with its unexpected April profit warning. Now even the flimsiest hoax or rumour is enough to inflict further damage on the group's battered share price and there still seem to be a lot of investors out there who would take any excuse to sell. They are probably being over-sensitive. Gross debt of £46m is well-structured and long-term; outstanding earn-out payments are unlikely to exceed £2m, payable halfway through 1991; and Erskine is taking action to cut costs in the US and persuade management there that the glory-days of the late 1980s are over. The company should make about £13m before tax this year, which puts the shares on a multiple of about four times prospective earnings. That looks like rough justice, but however hard Erskine works to make up for the misjudgements of the last two years it can do little to improve the performance of a depressed sector.

Sun Alliance launches Dutch life venture

By Richard Lapper

SUN ALLIANCE, the UK general and life insurer, yesterday announced the launch of a Dutch life assurance subsidiary, Sun Alliance Leven en Pensioen.

The new company, to be based in Rotterdam, will initially employ a staff of between ten and 12 and market via the country's extensive network of independent brokers rather than through a direct sales force.

Some 5,600 of Holland's 30,000 brokers specialise in selling life products in one of Europe's more open life assurance markets.

According to Mr Don Stringer, director in charge of overseas life operations, in a market dominated by large domestic companies, Sun Alliance's success will depend on its ability to respond quickly to clients and develop innovative and tailor-made products.

Sun Alliance will sell a range policies including a single premium savings bond which is popular on the Dutch market. The company also hopes to specialise in the sale of group pension policies for smaller companies.

Sun Alliance already has non-life operations in all twelve member states of the European Community and has life offices in Denmark, Germany and Spain as well as in the UK.

Cosalt profits fall by 25% to less than £4m

PRE-TAX profits of Cosalt, ships' chandler and caravan manufacturer, fell 25 per cent to £3.78m in the year to September 2.

Mr Edward Brian, chairman and chief executive, said deteriorating trading conditions had restricted margins.

All divisions traded profitably and within workwear, Raven of Barnsley, acquired in 1989, was now contributing to the divisional performance.

However, four of the five divisions reported lower profits with manufacturing at £1.63m (£2.22m) and caravans at £1.63m (£1.96m) coming off worst.

Mr Brian said that despite the slowdown in earnings, from 29.16p to 22.71p per share, the balance sheet continued to strengthen; net assets increased from £14.7m to £16m.

Turnover for the year amounted to £79.99m (£75.97m); £198,000 (£265,000) was allocated to the employees' profit sharing scheme.

Tax took £1.28m (£1.81m). A proposed final dividend of 6.5p brings the total to 10.75p (10p).

Anglo Irish up 63%

Anglo Irish Bank Corporation raised taxable profits by 63 per cent from I£3.78m to I£6.15m (£5.66m) in the year to September 30. Earnings per share worked through at 7.22p (5.65p) and a final dividend of 2p makes a total of 3.36p (2.97p).

Greenwich Resources cuts losses

By Kenneth Gooding, Mining Correspondent

IMPROVED COST controls enabled Greenwich Resources, the UK-based mining and exploration group, to cut its taxable loss for the year ended September 30 from £2.15m to £1.236m.

Mr Colin Phipps, chairman, says that, following the rights issued in September which raised £4.7m after expenses, "I now believe Greenwich to be a soundly-based, well-financed company with excellent prospects for the future."

Following the subscription and rights issues, George Weston Holdings, part of the Canadian family empire which controls Associated British Foods, now holds 22.7 per cent of Greenwich's issued capital.

Mr Phipps says that the Paddington mine in Australia contributed £1.08m in the year and, for the first time, there was a small, positive contribution (£142,000) from Venezuelan operations.

As previously envisaged, Greenwich has taken steps to acquire compulsorily the outstanding 2.65 per cent minority shareholding in its Australian subsidiary, United Goldfields.

Mr Phipps says the process should be completed in the new year and "will allow the more flexible use of the group's financial resources."

Operating income was £0.827m (£0.54m) and the operating loss was £0.736m (£0.953m).

F&C Germany Trust assets down sharply

F&C Germany Investment Trust, formerly Smaller Companies International Trust, reports that in the six months to September 30 net asset value per share fell from 141.4p to 92.2p. Total revenue for the period declined from £1.63m in 1989 to £1.01m.

Earnings per ordinary share were 1.23p (1.27p); there is no interim dividend but the company paid a special of 1p on July 7 1989 and a special interim of 2.5p per share on March 2 1990.

Pelican at £263,000

Pelican Group, the restaurant concern which was introduced to the USM in September, reported pre-tax profits of £263,000 in the six months to September 30. Turnover totalled £2.63m.

Operating profits were £310,000 and £192,000 was made on the sale of properties. However, administrative and finance expenses of £239,000 almost halved the pre-tax figure. Earnings per share amounted to 3.9p.

UK Land in agreed bid for St Martins

The boards of UK Land and St Martins-Le-Grand have agreed terms for a recommended cash offer for St Martins shares not already owned by UK Land.

The offer is £13.5 per St Martins' share which values the company at £4.18m. UK Land has received irrevocable undertakings in respect of a total of 162,572 shares (52.49 per cent).

Taking account of the St Martins' shares UK Land already holds this brings the total to over 78.67 per cent of the issued share capital.

Slowdown forecast but recovery expected from 1992 onwards

BAA improves 10% to £205m

By Paul Abrahams

STRONG PASSENGER demand on scheduled European and north American routes helped BAA, formerly the British Airports Authority, to record a 10 per cent rise in pre-tax profits to £205m for the six months to 30 September.

However, Sir Norman Payne, chairman, warned that increased costs and stagnant passenger growth would hold profits for 1991-92 at the same level as this year. He added that the company was nevertheless well placed to take advantage of the recovery of growth expected from 1992 onwards.

Passenger volumes at BAA airports increased by 5.6 per cent during the half year. That was achieved in spite of a collapse in the short-haul charter market which fell by 14.4 per cent. European scheduled routes increased by 13.1 per cent and north American routes by 10 per cent. Cargo operations, which were affected by the slowdown in the UK and world economy, grew only 1 per cent.

Profits from the core business were up 22 per cent to £215m, but the company was forced to make a provision of £18.5m on its property portfolio, which led to a £9.9m net loss in the Lynton property division. The results were in line with expectations.

Duty free sales increased only 2.5 per cent to £36.6m and tax-free sales by 7.4 per cent to £36.4m, while other commercial activities grew by 11.7 per cent to £82.8m.

Sir John Egan, company chief executive, said the company was investing heavily in its commercial activities, especially catering, and expected to enjoy the results next year.

However, analysts expressed concern about the company's cost base. Operating costs increased by 18 per cent to £286m during the first six months. Sir Norman said this had been caused by increased security costs, improvements in passenger service and investment in staff and facilities for Stansted's new £400m terminal which is due to be opened in March 1991.

Analysts also pointed to the company's vulnerability to the possibility of war in the Gulf. That would have the double effect of hitting passenger demand through slower growth in GDP as well as reduced American trans-Atlantic travel if the dollar were to fall.

In the event of war, there would also be a risk of increased security requirements. BAA is able to pass on only 75 per cent of additional costs and there is a delay in reimbursement of some two years. During the first six months, BAA spent £54.8m on safety and security measures.

In addition, the company will next year have to deal with increased costs associated with the Stansted terminal. BAA will have to cope with increased capital, depreciation and operating costs for the terminal. The company estimates that it needs 4.6m passengers at Stansted to cover its costs, but expects to handle only 1.4m passengers at the airport next year.

The company is also preparing for a statutory quinquennial review of its operations by the Monopolies and Mergers Commission.

Sir Norman expected passenger growth this year to be about 3.5 per cent, but fall next year to between 1 and 2 per cent. He added that the company would be concentrating on its core business.

BAA also increased its long-term forecast for passenger growth, preparing the way for its campaign for an additional runway in the south-east of England. Sir Norman said the runway would need a ten-year gestation period and that the official planning process should be started around 1993-94.

The half year results were achieved on turnover of £491m (£431m). The board declared an interim dividend of 5.25p (4.5p) per ordinary share from earnings 16.7 per cent ahead at 30p.

See Lex

Lydia van der Meer

Sir John Egan, chief executive (left), with BAA chairman Sir Norman Payne

Another executive director quits Burns-Anderson

By Philip Coggan, Personal Finance Editor

ANOTHER executive has resigned from Burns-Anderson, the financial advisory and recruitment group where Sir John Harvey-Jones was until recently the non-executive chairman.

Mr Colin Redman, a main board director and chief executive of the group's financial advisory division, is leaving the group after two years. His resignation follows the departure of Mr Alan Moore, chief executive of the parent group, last December. Others to have left the board this year include Mr David Johnstone, Mr Tony Smith and Mr Don Richardson.

When Sir John Harvey-Jones became chairman in June 1987 the shares were over £2 but they have slumped to 7p, down 1p yesterday. Sir John is still a non-executive director.

The company recently forecast that it would only break even in the current financial period (15 months to December 31) and it would also incur further costs of £1.7m relating to redundancies.

Tie Rack losses due mainly to N America

By Jane Fuller

TIE RACK provided further evidence of the pressure on former high-fliers of niche retailing as it reported a plunge in pre-tax loss to £674,000, from £272,000, and decided not to pay an interim dividend.

Mr Roy Bishko, chairman of the ties, scarves and accessories concern, warned that the full-year pre-tax profit would be significantly below last year's £1.3m (excluding a property gain).

The shares tumbled 10p to close at 17p.

Sales for the six months to August 12 virtually stagnated at £21.82m (£21.51m). The number of shops remained at 247.

Mr Bishko said although trading had been difficult in the 134 UK shops, its contribution was slightly up on last year.

The main loss came in North America, where the group has 43 shops. Last year a loss of £1.2m was blamed on start-up costs and high overheads, particularly as the shops were owned rather than franchised, as is the norm in the UK.

While steps had been taken to cut costs and improve management, the dollar's weakness had hit margins.

Nevertheless, Mr Bishko said it was possible that the losses would be reduced over the full year.

Another disappointment came in Australia. Its healthy profit contribution in the first half of 1989 was virtually wiped out by a severe downturn in retailing. Some consolation came from France, elsewhere the performance was mixed.

Mr Bishko said the run up to Christmas was very important: "We can do a third of our turnover in those six to eight weeks."

As usual at the interim stage, the company declined to give figures for interest charges or debt.

A quadrupling of interest payments to nearly £2m last year was one of the factors behind a virtual halving of pre-tax profit.

Mr Bishko said gearing was 25 per cent less than it had been at the half-way stage last year.

Tighter cost control had led to the shedding of 11 per cent of the workforce and to cuts in stock levels and capital expenditure.

After a tax credit, the loss per share was 0.95p (loss of 0.48p).

● COMMENT

The sombre tones of the normally ebullient Mr Bishko coupled with the passing of the dividend show just how tough the going has become for Tie Rack.

Analysts wishing to reassure that this is not another Sock Shop point to the much lower gearing and tighter financial control.

The company is stressing that year-end debt of £8m and gearing of 46 per cent will be reduced by March.

Yet one area where control has apparently not been as tight as it might have been is in the management of overseas operations, a recurring theme in sorry retail performances.

A pre-tax profit of £500,000 is forecast for this year, after interest payments of perhaps £1.7m. The prospective p/e depends on whether the Inland Revenue lets the company allow overseas losses against UK profits.

The hoped for nil tax rate gives a multiple of more than 11. If the rate stays over 50 per cent, it goes up to 25 times.

With the final dividend "reflecting the level of profit" achieved, the shares still do not look cheap.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Amersham Intl., Bogod, Brown Shipley, Cable & Wireless, Forward Group, Golden Hope Plantations, Readicut, Stotchley, Waddington (John).

Finals- Radio Clyde, Shanl.

FUTURE DATES

Interims-	
Alba	Nov. 28
Boxbuild Developments	Nov. 28
Bristol Evening Post	Dec. 14
Chloride	Dec. 7
Kambrey	Nov. 29
Mansfield Brewery	Dec. 4
Mountview Estates	Nov. 29
North West Water	Nov. 28
Sims Food	Nov. 22
Tams (John)	Dec. 5
Trimoco	Nov. 28
Finals-	
Hoskyns	Dec. 13
Venture Plant	Dec. 12
Whessoe	Nov. 22

Foseco dismisses Burmah's £237m bid as 'miserly'

By Richard Gourlay

FOSECO, the UK speciality chemicals and abrasives producer, yesterday dismissed a hostile £236.8m bid from Burmah Castrol, the lubricants, fuels and chemicals group, as frivolous and miserly.

Mr Tom Long, Foseco's chairman, said Burmah had completely undervalued Foseco's business and future prospects and that the company had a healthy independent future.

An important feature of the Foseco recommendation that shareholders should reject the offer was a forecast of pre-tax profits for the year of £40.5m, giving earnings of 27.1p per share.

This forecast takes into account exceptional costs of £6.2m, principally relating to rationalisation costs, and exceptional credits of £4.2m, mainly relating to the successful defence of a patent action in the US.

Burmah Castrol said the Foseco defence document brought no new information to the market and was an effort to camouflage likely full-year pre-tax profits of around £36m, a figure analysts had been expecting before the bid was launched.

Burmah argues the rationalisation should be treated as an ordinary cost of business and that the £36m figure represents the true profit base of Foseco. Mr Jonathan Fry, managing director of Burmah Castrol, said the 275p per share offer remained perfectly fair and that Foseco had produced no new evidence to suggest otherwise.

Foseco said that its 1990 forecast represented earnings of 27.1p a share and therefore a prospective exit multiple of only 10.1 times. Mr Long was reluctant to make a forecast of 1991 earnings given political and economic uncertainties.

In the defence document, Foseco announced it would further concentrate resources on its two main business areas, metallurgical chemicals, construction and mining chemicals. It said it would put its abrasives business up for sale in addition to some small industrial businesses in the UK which are already on the market.

At the time Burmah Castrol launched its bid Mr Laurence Urquhart, its chairman, said Foseco had lost its way and that, despite the expensive restructuring, Foseco had failed to deliver to its shareholders.

Foseco responded yesterday by saying that the £115m in capital expenditure and acquisitions spent between 1986 and 1989 was about to bear fruit but that the benefits belonged to its shareholders.

Foseco also dismissed Burmah's claim that the takeover makes good business sense. The document said Foseco had achieved customer respect for technological innovation and marketing; Burmah, by comparison, only managed consumer brands.

Foseco shares closed 4p up at 183p.

Major restructuring at APV

By David Owen

APV, the world's largest manufacturer of food processing machinery, is to embark on a major restructuring programme. It is believed that this will involve more than 1,000 redundancies worldwide, about 10 per cent of the group's workforce.

The programme is also expected to result in the restructuring of divisions along product rather than geographical lines.

The London-based company said that the move was aimed at improving productivity in its UK, US and Australasian operations.

The announcement comes two months after APV unveiled flat interim profits and produced a gloomy forecast for the balance of the year. "We are not isolated from the downturn in the world economy," said Sir Peter Cazalet, chairman, at the time.

The costs associated with the restructuring are to be provided fully in the 1990 accounts, with about £8m to be taken as an exceptional item and a similar amount charged either as an extraordinary or set against provisions established in 1989 and prior years.

Mr Fred Smith, chief executive, said that the difficult economic climate had made it important that the group's cost base be reduced. "The restructuring will ensure that APV remains strongly represented in all of its business areas," he said.

The company expressed confidence that the level of ordinary dividend for the year could be maintained.

After fighting off an unwanted bid from Siebe, the rival UK group, in 1986, APV grew rapidly through acquisitions, more than doubling in size in the following three years.

It has since been criticised for paying insufficient attention to general day-to-day management during this period, however.

In 1989, the group made pre-tax profits of £80.6m on turnover of £849m.

The shares fell 2p yesterday to 78p.

Hazlewood Foods declines 8% in spite of 16% sales growth

By David Owen

HAZLEWOOD FOODS, the Derby-based food manufacturing group which recently sold its confectionery arm to management for £59m, yesterday reported an 8 per cent decline in interim profits for the six months to September 30.

Figures a year earlier included £4.6m in non-trading credits. The group said it achieved a like-for-like sales volume increase of 16 per cent.

Pre-tax profits for the six months to last September 30, taking account of a 6 per cent increase in interest costs to £4.14m (£3.9m), slipped from £24.46m in 1989 to £22.54m. Turnover advanced 5 per cent to £286.7m (£271.8m). The largest component of this was frozen foods, where sales totalled £122m.

The company said the improvement in sales had not fully come through to operating profits because of rising raw material and reorganisation costs.

Hazlewood is reorganising its businesses into larger operating groups as its focus switches away from growth by acquisition.

"We are moving from acquisitional to organic growth," said Mr John Simons finance director.

The frozen foods division contributed £9.5m to operating profit, while fresh foods generated £8.1m, groceries and non-food £6.2m and confectionery and snacks £2.8m.

The confectionery unit disposal produced an extraordinary gain of £21.5m, against a £1.06m charge. The sale was also instrumental in leading to a significant reduction in the group's gearing to 62 per cent, and in swelling retained earnings to £32.89m (£13.04m).

Earnings per share slid by 14 per cent from 8.71p to 7.5p in 1989. An interim dividend of 2.1p (1.8p) was declared.

The shares rose 8p to 134p.

● COMMENT

As the move in the share price indicates, the City was at least half-convinced by Hazlewood's protestations yesterday that it has changed its spots.

The company, once a stock market favourite, is endeavouring to bolster its lacklustre rating by emphasising organic rather than acquisition-led growth and improving the quality of its earnings.

The interim figures, seen in this light, are a positive step towards restoring management's credibility. Full-year profits, however, will come in below 1989/90 levels with some analysts focusing on what they see as a difficult outlook for margins in frozen foods.

Assuming pre-tax profits of around £50m, the prospective p/e of 8 remains undemanding. But with the jury still out on the incumbent management, prospective investors seem unlikely to miss out if they opt to hold their fire for another few months.

UK COMPANY NEWS

Fair Trading Office approves pubs-for-breweries swap with Elders

GrandMet backed on £2.6bn deal

By Philip Rawstorne

GRAND Metropolitan, the UK food, drinks and retailing group, and Elders IXL, the Australian brewer, were yesterday given the all-clear for their £2.6bn pubs-for-breweries swap.

Mr Peter Lilley, trade and industry secretary, approved the deal after the negotiation of revised beer supply restrictions with the Office of Fair Trading.

Both companies welcomed the decision yesterday and will now discuss final arrangements for the restructuring of their brewing, retailing and property interests.

This will involve some adjustments to the original financial proposals. GrandMet may get rather less than the £366m envisaged for its breweries; but analysts concluded that the revised deal was better than either could have expected.

GrandMet will transfer its four breweries and the Ruddles, Watneys, Truman and Webster's beer brands to Courage, making it the UK's second largest brewer with some 20 per cent of the market against Bass's 22 per cent.

Courage's market share is expected to fall to about 17 per cent over the next two years. It intends to sell the Ushers brewery, together with some 440 pubs in south-west England; and Carlsberg is expected to make new arrangements after its brewing licence with GrandMet expires next year.

GrandMet will retain a managed estate of 1,730 pubs. Most of the remainder together with Courage's pubs will be transferred to a joint venture, Inntrepreneur Estates. The new company will have control over about 7,000 pubs. This number will be reduced to 4,350 to meet government requirements in November, 1992.

The new conditions for the deal centre on the duration of Courage's exclusive supply of beer to these estates.

The two companies had suggested a 10-year tie with supplies being progressively reduced after five years. The Monopolies and Mergers Commission recommended a five-year tie with reductions after two years.

Mr Lilley has now agreed that the supply contract with Inntrepreneur should last a full seven years; and the contract with GrandMet's managed estate should be ended after four years.

In addition, Courage and GrandMet have undertaken that no more than 25 per cent of the pubs in any licensing area will be tied, and the number wil be cut to 20 per cent after four years.

Mr Doug Henderson, Labour's trade and industry spokesman, attacked the government's approval of the deal yesterday as "another climbdown on competition policy."

He added: "This backdoor swap deal is being used to get round legislation and the government should stop this affront to the intentions of Parliament."

The deal could threaten jobs and was also likely to be seen by other brewers as the green light for further swaps and brewery closures, he said.

See Lex

Goodman Examiner granted extension

By Kieran Cooke in Dublin

THE DUBLIN High Court has granted Mr Peter Fitzpatrick, the Examiner to Goodman International, an extension till December 11 in order to pursue his rescue plan for Ireland and Europe's biggest beef processor and exporter. Mr Fitzpatrick has said that so far talks with 33 creditor banks owed I£470m had been progressing satisfactorily but that more time was needed to deal with the complexities surrounding the affairs of Goodman International.

Under the terms of Irish companies leigislation, if no firm agreement is reached between Mr Fitzpatrick and Goodman creditor banks by the end of December then Goodman International, one of Ireland's biggest companies, will go into liquidation.

Mr Fitzpatrick's rescue plan offers creditors the choice between the devil and the deep blue sea. Liquidation, says Mr Fitzpatrick, is "so awful" a prospect that a workout proposal is obviously the more favourable option.

Though most banks seem to agree with Mr Fitzpatrick there are serious problems: Banco Bilbao, owed I£10.7m by Goodman International, is pursuing an action in the High Court in Belfast to wind up Goodman's substantial operations in the UK and in the process recover some of its loans. If successful Banco Bilbao's action would bring the delicate financial structure of Mr Fitzpatrick's rescue plan tumbling down.

Goodman International is at present owed I£167.7m by Iraq. In a related development, Mr Larry Goodman, head of the privately held Goodman group, is taking legal action against the Irish government for the cancellation of various state insurance policies covering Goodman beef exports to Iraq.

Mr Fitzpatrick has made it clear that for his rescue plan to succeed, creditor banks must accept that either Iraq will repay its debt or that Mr Goodman's legal action against the Irish government will be successful. These are not particularly solid incentives for creditors. There are problems surrounding the role in any rescue plan of Mr Goodman himself.

Mr Goodman controls more than 95 per cent of Goodman International. Some banks are demanding that Mr Goodman be reduced to a minority shareholder in the group. Mr Goodman is apparently insisting that he maintain overall control. Creditor banks are also anxious that Mr Goodman put more of his own personal assets, including family trusts valued at between I£8m and I£10m, into the Goodman group.

Mr Goodman is at present pursuing a case through the courts in Cyprus for the recovery of more than I£20m which he says was fraudulently obtained from a company in the Goodman group. Those funds would then be put "into the pot" and would be likely to form part of an eventual rescue plan.

But the Cyprus case shows no sign of being resolved in the near future and a Cypriot businessman contesting ownership of the funds, at present held in a Cyprus bank, has indicated he is determined to pursue his case. Mr Fitzpatrick's continues to try to find a way out of what has been Ireland's biggest ever business debacle. But time is running out.

COMPANY NOTICES

LEGAL NOTICES

No. 008810 of 1990

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
IN THE MATTER OF THE MORGAN CRUCIBLE COMPANY plc
- and -
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice, Chancery Division dated the 12th day of November 1990 confirming the cancellation of the Share Premium Account of the above named Company was registered by the Registrar of Companies on 13th November 1990.

Dated this 16th November 1990

Clifford Chance
Royex House
Aldermanbury Square,
London EC2V 7LD

Solicitors for the Company

ART GALLERIES

PERSONAL

COMMODITIES AND AGRICULTURE

Brazilian cocoa crisis deepening, growers warn

By Victoria Griffith in Sao Paulo

COCOA GROWERS and exporters in the Brazilian state of Bahia are warning of a collapse in the sector if the government does not take emergency measures to correct the deepening crisis. Widespread unemployment has hit as producers can no longer afford to pay for the labour they need to plant and harvest the crop.

Less than 200,000 men are currently at work on the Bahian cocoa plantations, compared with 490,000 in January last year. The Bahian cocoa sector is demanding that the government set up an emergency line of credit to be used for export financing and investment in the cocoa plantations.

"If emergency measures are not taken," said Mr Luis Rio Branco, executive director of the Brazilian Association of Cocoa Exporters, "we will no longer be able to produce and export cocoa from the state of Bahia."

Bahia contributed about 350,000 tonnes of cocoa to the market in 1989; this year's estimates are for a similar amount.

Bahian cocoa growers are victims of an international and domestic crisis. While steady consumption growth in recent years has narrowed the annual supply surplus somewhat the gap has remained substantial. World production is expected to exceed consumption by some 350,000 tonnes this year.

The Brazilian cocoa sector is also suffering from the domestic economic situation. With Brazilian inflation rising at rates over 15 per cent a month, cocoa prices have stagnated.

Moreover, a liquidity drain enforced by President Collor's economic austerity plan has led to a credit crunch in Brazilian agriculture. Cocoa growers have no resources to invest in technology to improve production efficiency. Exporters are also in dire need of funds.

Bahian cocoa growers complain of unfair trading laws in the European Community. Brazilian cocoa is subjected to a 3 per cent tariff within the Community, while African cocoa enters free from any trade barrier.

UK wheat exporters' credit disadvantage

By David Blackwell

THE HOME Grown Cereals Authority, which is responsible for UK wheat export policy, is worried that UK wheat exporters are operating at a disadvantage in the EC because they have no access to soft loans.

The Export Credits Guarantee Department at the moment appears to be reluctant or unable to support wheat exports to the Soviet Union, one of the biggest markets for grains, according to Mr Barry Rose of the HGCA's exports promotion division.

Mr Brian Nelson, chairman of the HGCA, pointed out yesterday that Coface, the French grain exporting agency, had recently announced a FFr5bn (£510m) soft loan for the Soviet Union, which was believed to have bought 1.5m tonnes of French wheat and 500,000 tonnes of barley.

The market was intensely competitive, he said, and "we could lose sales, not because of any inability to supply grain of the right quality, at the right price, at the right time, but because of the existence of soft loans and extended credit from other EC member states distorting competition."

If the UK fails to sell to the Soviet Union, sales of grain into intervention stores are likely to soar. Last year, UK sales into intervention were virtually zero – in marked contrast to almost 6m tonnes in 1985. The UK sold 1m tonnes of wheat and 1m tonnes of barley to the USSR last year.

● The HGCA is to increase spending on cereals research and development by £1m to £3.5m from June next year.

Mr Nelson said reduced funding of support prices through the EC's Common Agricultural Policy and the likelihood of further reductions following Gatt discussions had "inescapable implications" for growers' margins.

"We must ensure that R & D helps reduce unit production costs, encourages the production of cereals of a quality that the market demands and recognises the environmental implications of intensive farming."

Bumper harvest adds to Peking's woes

A special correspondent looks at China's problem of plenty as grain prices slide

A SECOND successive bumper harvest is threatening a crisis in China's countryside. Grain prices are falling and with application of the government's policy of buying up surpluses increasingly in doubt fears of rural unrest are growing.

"The government appears to be backing down from its original position of buying all excess grain," one western agricultural expert said. "Instead, it has said it will buy whatever it is possible to purchase."

This year's harvests of grain, potatoes and beans are expected to total about 425m tonnes, compared with an estimated 407m tonnes last year, according to western observers.

Under the agricultural reforms introduced in the eighties, farmers contracted with the state to produce a certain quota of grain at low, fixed prices. The remainder is sold both to the free market and to the state at negotiable prices, slightly below free market levels.

However, according to a Chinese economist, the bumper grain harvest this year has so far pushed free market prices about 15 per cent below state prices, bringing a commensurate fall in farmers' incomes.

"The government is worried about stability in the rural areas and about farmers deciding not to grow grain because of low prices," he noted.

To encourage farmers to continue to grow grain, a recent national grain conference decided the state would buy all excess grain at set prices, official newspapers said. The central government does not want a repeat of 1984, when a bumper harvest also depressed prices and prompted farmers to switch to growing other more profitable crops, diplomats said.

In addition, to compensate farmers for their drop in income, the state has ordered some state-owned enterprises and provinces to buy surplus grain at prices higher than either those paid for grain committed to the state or current depressed free market levels.

'The government is worried about stability in the rural areas and about farmers deciding not to grow grain because of low prices'

Despite the central government's policy, it is not clear how effectively the administrative order is being implemented. "It is not being followed strictly," one western diplomat said. "Some provinces don't have the funds to purchase excess grain or the place to store it."

Of the money allocated to buy grain, the central government made only about 50 per cent available, and not all of that has been distributed to farmers. Western diplomats said some of the funds were spent on non-productive measures.

A Chinese agricultural economist also noted that the country's tight credit policy had made it difficult for Chinese organisations to obtain the loans necessary to purchase the grain. Even state-run enterprises were reluctant to buy grain, because of the cost of storing it.

In the current situation, farmers have three choices: hold the grain until a later time when they can obtain cash; sell it on the free market; or, in some cases, exchange it for government credit notes.

Farmers are also receiving different signals from some provincial governments, which are encouraging farmers to grow tobacco and other cash crops, not only because they are more lucrative for the farmers, but also because they bring in more tax revenue.

The problem of a bumper harvest is compounded by inadequate storage and distribution facilities. The official Chinese media have reported that mountains of grain have been allowed to rot in the countryside.

Western diplomats believe that 30m to 40m tonnes of grain are lost each year, because of a severe shortage of grain silos and warehouses. Some grain is being stored in cinemas, army camps, and meeting halls, some is lost in transit, while some is eaten by rats.

Chinese officials say because the problem is so widespread, construction of warehouses and other new storage facilities is a top priority. "The state's storage capacity is limited, but farmers face the same problem," said an official from the ministry of agriculture attending the recent national grain production conference in Peking.

"The result is that some farmers are selling grain below the state price. To stabilise the market and stimulate farmers to grow grain, the state has taken steps to build temporary warehouses."

The central government is not only planning to build more storage granaries, but is also exploring ways to improve management of those facilities. It is considering the establishment of a national grain reserve bureau which would be administered by the ministry of commerce.

The bureau would determine where and how much grain is stored, and the areas that need it most. It would function as a regulatory body under the state council.

China is also examining the possibility of expanding the role of its collectives or of forming co-operatives at the provincial level, similar to those that can be found in Sweden and Finland, where co-operatives perform market regulation functions, diplomats said. In those countries, they regulate overproduction, create rural industries, collectively buy fertilisers and disseminate agricultural information, among other duties.

Although China has collectives, they play a limited role compared with the co-operatives of Europe, a Chinese economist said.

Apart from storage, another key issue discussed at the Peking conference was price reform.

"It is an extremely sensitive issue and there are no immediate plans to move towards a free market system," said the agricultural ministry official.

Western diplomats and Chinese economists agree, however, that price reform – raising the price at which the state purchases grain from farmers and eliminating subsidies to urban consumers – is crucial to improving the Chinese economy.

One western diplomat noted that the Chinese had said they planned to increase grain prices paid to farmers by up to 20 per cent, but he declined to specify a time period.

The government's eventual goal is to increase gradually farmers' income and to reduce the huge subsidies the central government pays for medical benefits, housing, and food. It is also considering paying cash directly to urban consumers or gradually raising wages, a Chinese economist said.

In an effort to keep farmers content the state had bought, by the end of October, 60m tonnes of grain, an increase of six per cent from last year, western diplomats estimated.

Despite the record output, however, China's average per capita grain consumption will drop this year to 370 kg, which is less than in 1984, because of population growth, said the China Daily, the official English-language newspaper.

Still, because of the record harvest, western diplomats predict wheat imports will fall to between 10m and 12m tonnes during the next year, compared with slightly more than 15m tonnes last year.

Moreover, as the autumn harvest ends, rural workers are already flooding into the cities seeking jobs. Rural unemployment is high and low free market prices exacerbate the situation by prompting more workers to leave the countryside in the hope of finding better paying jobs in the urban areas.

The presence of growing numbers of disgruntled peasants in China's major cities is a serious worry to a government that is still haunted by memories of last year's Tiananmen Square massacre.

EC fisheries ministers discuss compromise plan

By Tim Dickson in Brussels

EUROPEAN COMMUNITY Fisheries Ministers were last night discussing a compromise package of measures to conserve stocks of white fish in the North Sea.

The outcome of their meeting in Brussels – doorstepped anxiously by leading representatives of the industry – was widely seen as vital for the future of thousands of fishermen in Scotland and the North of England, as well as for parts of the Danish and German fleets.

By early evening it was clear that the most controversial element of the Commission's proposal – increasing the minimum mesh net size from 90 mm to 120 mm - had been rejected by most member states.

The expectation was that attempts would be made to reach agreement on the basis of a 110 mm minimum mesh, along with other technical modifications.

Britain's representative at the talks – junior fisheries Minister Mr David Currie – said that the UK rejected Brussels' plan for a separate whiting fishery but that he could agree to the proposed "one net per boat" rule, except for vessels fishing outside community waters.

Green pressure on coal miners

By David Blackwell

COAL MINING companies need great flexibility to plan for the coming decade in the face of growing environmental pressures, according to a report on the world coal industry by Sheffield Energy & Resources Information Services.

While the authors are "not yet terribly convinced by the available scientific evidence for global warming," they believe that future restrictions on emissions of carbon dioxide (the main greenhouse gas) "might have a differential impact upon hard coal and brown/coal lignite producers."

They are convinced, however, that impending legislation in both the US and elsewhere over pollution from acid rain (caused by sulphur dioxide) will increase the search for and value of low sulphur coal. The report points out that companies with good reserves of low sulphur coal see this as a major market advantage.

By concentrating too much on one target a company may be in danger of locking itself into an inflexible position, the report warns. British Coal has over the past decade targetted unit costs, with the result that most of its mines in Kent, Scotland and South Wales have been shut. "Unfortunately it was in these regions that low sulphur coal predominated."

High sulphur content is one of the big problems of eastern Europe's coal industry, coupled with low productivity and commercial losses. This would be expected to result in a continuing rundown of output, with the gap being filled by a combination of alternative fuels, energy conservation and foreign imports, says the report.

However the present energy crisis in the region brought about by massively higher Soviet oil prices, combined with a cut in oil supplies from both the Soviet Union and Iraq and continuing problems with nuclear energy, mean that the industry "may well receive a new lease of life."

The eastern Europe industry is inevitably changing rapidly, and the UN Economic Commission for Europe has sponsored talks between east and west on adapting it to the market. No consensus has emerged – but eastern delegates "have been surprised by the extent to which the coal companies of western Europe remain protected, supported and regulated by the State."

Coal Companies Worldwide: Competition and Performance Indicators. Vol 2. By Ian Rutledge and Phil Wright. Sheffield Energy & Resources Information Services, 103 Carter Knowle Road, Sheffield S7 2DY. £295 inc. p & p.

Zambia frees gem trade

By Mike Hall in Lusaka

THE ZAMBIAN government, under pressure from miners and aid donors, has liberalised the processing and marketing of gemstones, a potentially important foreign exchange earner.

Small-scale miners have welcomed the unexpected announcement by Mr Gibson Chigaga, the finance minister, in his 1991 budget speech.

Mr Chigaga said it was estimated Zambia exported US$200m worth of gemstones although only $10m was officially recorded. "In order to redress this discrepancy, those intending to set up companies to market abroad or at home or cut and polish stones are now free to do so," Mr Chigaga said.

Miners will be entitled to retain 50 per cent of foreign exchange earnings, instead of 20 per cent. A gemstone board, run by miners, and an auction system will be established.

The government has allocated about $250,000 to the board which will cater for training, purchase of equipment and other miners' needs. "The government has accepted almost all the proposals we put forward," said Mr Arthur Yoyo, chairman of the Gemstone and Precious Metals Association. "We now have to prove that what we have been saying is actually possible."

It is estimated Zambia produces about 20 per cent of the world's rough emeralds. Amethyst, aquamarine, garnets and tourmaline are also mined, mostly by about 200 small-scale miners. Many were forced to sell their output illegally to smugglers to obtain a realistic price. "The smugglers are going to be out of business now," said one miner.

Miners estimate that the board will employ about 200 people and handle $1m a day.

MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,630-1,670 (same).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 2.75-2.90 (same).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 1.50-1.75 (1.60-1.90).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 12.20-12.75 (12.20-12.80).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 170-185 (same).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.50-2.60 (2.58-2.68).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 4.80-5.40.

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO_3 cif, 37-49 (35-49).

VANADIUM: European free market, min. 98 per cent, $ a lb V_2O_5 cif, 2.25-2.35 (same).

URANIUM: Nuexco exchange value, $ per lb, U_3O_8, 11.45 (same).

LME WAREHOUSE STOCKS
(As at Monday's close)
tonnes

Aluminium	+3,100	to 297,900
Copper	+800	to 178,450
Lead	−975	to 44,400
Nickel	−612	to 3,498
Zinc	−1,775	to 63,425
Tin	+30	to 11,125

WORLD COMMODITIES PRICES

MARKET REPORT

Aluminium prices found support on the LME yesterday after a morning dip below $1,600 a tonne for three-month metal. Traders said Far East selling hit the market early and saw three-month business down to $1,592. But at this level support emerged from trade buying and short covering. A stock rise of 3,100 tonnes in LME warehouses was smaller than some traders had forecast. IPAI data showing western world smelter output at a record 39,200 tonnes a day in October made no impact on the market. Zinc prices rose on an LME stocks fall of 1,775 tonnes, which triggered short covering up to $1,280 a tonne for three-month metal, but there was insufficient follow through buying to test resistance above this and prices later fell back in thin trading. News of a 612-tonne drop in LME nickel stocks, in contrast to expectations of a small rise, helped the market to recover some of Monday's losses. In Chicago soyabeans were under pressure at midday after the bearish news from Paris that President Bush had not offered food aid or a credit package to the Soviet Union. Traders on Monday bought futures amid hopes such an offer would be made.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$24.60-4.70v	-1.55
Brent Blend (dated)	$29.85-9.95	-1.45
Brent Blend (January)	$28.55-8.65	-1.40
W.T.I. (1 pm est)	$29.80-9.35v	-1.45
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$281-286	
Gas Oil	$288-290	-7
Heavy Fuel Oil	$131-133	+1
Naphtha	$263-268	-0.5
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$378.00	-1.75
Silver (per troy oz)♣	411c	-5
Platinum (per troy oz)	$418.5	
Palladium (per troy oz)	$93	
Aluminium (free market)	$1570	
Copper (US Producer)	124c	
Lead (US Producer)	50c	
Nickel (free market)	397c	
Tin (Kuala Lumpur market)	16.20r	+0.01
Tin (New York)	287c	+1
Zinc (US Prime Western)	70c	
Cattle (live weight)†	108.11p	-0.56*
Sheep (dead weight)†	142.04p	-2.40*
Pigs (live weight)†	71.16p	-4.96*
London daily sugar (raw)	$259.8w	-8.8
London daily sugar (white)	$302.8w	-8.0
Tate and Lyle export price	£237.0	-8.5
Barley (English feed)	£116	
Maize (US No. 3 yellow)	£182.5	+0.5
Wheat (US Dark Northern)	£81u	
Rubber (Dec)♥	51.00p	+0.25
Rubber (Jan)♥	51.25p	+0.25
Rubber (KL RSS No 1 Dec)	244.5m	+0.5
Coconut oil (Philippines)§	$345q	-15
Palm Oil (Malaysian)§	$337.5u	
Copra (Philippines)§	$248t	
Soyabeans (US)	£135	+1
Cotton "A" index	82.60c	
Wooltops (64s Super)	398p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. q-Nov/Dec. t-Feb. u-Dec v-Jan. w-Dec/Jan z-Feb/Mar. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low
Dec	224.00	226.20	220.00
Mar	216.60	218.00	219.20 215.80
May	218.20	218.40	219.60 218.40
Aug	221.00	221.00	220.60
Oct	219.20	219.60	220.00 219.00
Dec	221.00	220.00	217.00
Mar	223.00	220.00	218.60
White	**Close**	**Previous**	**High/Low**
Mar	296.0	297.5	297.0 295.5
May	296.0	297.5	297.0 295.5
Aug	300.2	301.5	301.5 300.5
Oct	284.0	284.5	284.0 283.0
Dec	280.5	281.0	281.0 280.2
Mar	281.0	281.5	281.5 280.5
May	282.0	282.5	282.0

Turnover: Raw1649 (1407) lots of 50 tonnes. White 710 (748)
Paris- White (FFr per tonne): Mar 1482, May 1467, Aug 1616, Oct 1431.

CRUDE OIL – IPE ($/barrel)

	Latest	Previous	High/Low
Jan	28.40	29.82	29.85 28.40
Feb	27.60	28.85	28.60 27.50
Mar	27.00	27.89	27.46 27.00
IPE Index	28.85	29.31	

Turnover: 13618 (14220)

GAS OIL – IPE ($/tonne)

	Latest	Previous	High/Low
Dec	272.50	276.75	277.00 270.00
Jan	262.50	265.60	264.75 268.00
Feb	248.50	251.25	250.00 245.00
Mar	233.00	236.75	236.00 231.00
Apr	220.50	223.00	223.00 218.25
May	218.00	220.00	218.00 215.00

Turnover 7148 (17912) lots of 100 tonnes

JUTE
C & f Dundee BTC $530, BWC $560, BTD $480 BWD $480; c and f Antwerp BTC $510, BWC $510, BTD $450, BWD $450.

COTTON
Liverpool-Spot and shipment sales for the week ended 16 November amounted to 247 tonnes, compared to 128 tonnes in the previous week.

COCOA – London FOX (£/tonne)

	Close	Previous	High/Low
Dec	701	698	710 694
Mar	750	752	759 742
May	774	776	784 769
Jul	796	798	808 793
Sep	815	820	827 814
Dec	841	849	852 839
Mar	868	875	877 865

Turnover: 11154 (13080) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Nov 19 991.80 (988.01) 10 day average for Nov 20 908.07 (896.17)

COFFEE – London FOX (£/tonne)

	Close	Previous	High/Low
Nov	582	585	572 580
Jan	575	576	585 573
Mar	567	563	570 555
May	581	567	573 559
Jul	577	582	587 574
Sep	593	597	604 602
Nov	610	617	

Turnover: 3109 (2736) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Nov 19: Comp. daily 69.80 (68.06). 15 day average 70.20 (70.42)

POTATOES – BFE (£/tonne)

	Close	Previous	High/Low
Apr	147.8	144.5	148.0 143.5
May	167.7	164.0	167.9 163.1

Turnover 115 (205) lots of 40 tonnes.

SOYAMEAL – HI-PRO (£/tonne)

	Close	Previous	High/Low
Apr	117.50	119.00	119.00 117.50
Jun	118.00	119.00	119.00 118.00
Aug	118.50	120.00	119.50 118.50
Oct	119.50		119.50

Turnover 202 (80) lots of 20 tonnes.

FREIGHT FUTURES – BFE ($10/index point)

	Close	Previous	High/Low
Nov	1330	1328	1325 1325
Dec	1323	1308	1320 1314
Jan	1284	1272	1284 1275
Apr	1245	1234	1245 1235
Jul	1035	1025	1035
BFI	1305	1300	

Turnover 122 (145)

GRAINS – BFE (£/tonne)

Wheat	Close	Previous	High/Low
Nov	116.80	116.80	116.80
Jan	119.65	119.80	119.70 119.55
Mar	123.50	123.60	123.50 123.40
May	126.80	127.00	126.90 126.70
Jun	128.35	128.50	
Sep	109.25		109.25
Barley	**Close**	**Previous**	**High/Low**
Nov	113.00	113.10	113.00 112.75
Jan	116.00	116.00	116.00
Mar	119.40	119.40	119.40

Turnover: Wheat 395 (106), Barley 99 (67).
Turnover lots of 100 tonnes.

PIGS – BFE (Cash Settlement) p/kg

	Close	Previous	High/Low
Nov	95.5	95.5	
Jan	89.5	90.5	90.0 89.5
Feb	91.0	91.0	90.5

Turnover 22 (26) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)					Total daily turnover 17,795 lots	
Cash	1570-5	1570-5	1569/1598	1568-9		
3 months	1608-10	1608-10	1608/1592	1600-1	1607-8	63,384 lots
Copper, Grade A (£ per tonne)					Total daily turnover 20,558 lots	
Cash	1329-30	1329-30	1325/1314	1314-5		
3 months	1322-3	1322-3	1326/1313	1314-5	1321-2	108,373 lots
Lead (£ per tonne)					Total daily turnover 1,869 lots	
Cash	351-2	351-2	349/348.5	349-9.5		
3 months	357-8	357-8	358/353	354-5	355-7	11,374 lots
Nickel ($ per tonne)					Total daily turnover 1,925 lots	
Cash	8475-525	8475-525		8560-75		
3 months	8250-75	8250-75	8375/8300	8310-25	8375-400	7,835 lots
Tin ($ per tonne)					Total daily turnover 824 lots	
Cash	8195-205	8195-205	6210/6205	6205-10		
3 months	6200-5	6200-5	6210/6200	6190-5	6205-10	9,105 lots
Zinc, Special High Grade ($ per tonne)					Total daily turnover 2,793 lots	
Cash	1288-90	1288-90	1283/1282	1282-3		
3 months	1272-5	1272-5	1275/1267	1271-2	1273-5	20,071 lots

LME Closing £/$ rate: SPOT: 1.9680 3 months: 1.9412 6 months: 1.9222 9 months: 1.9037

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	377¼-378¼	191¾-192¼
Opening	380¾-381¼	193-193½
Morning fix	379.50	192.444
Afternoon fix	380.00	192.603
Day's high	381-381½	
Day's low	376¾-377¼	

Coins	$ price	£ equivalent
Mapleleaf	389-394	197½-200½
Britannia	389-394	197½-200½
US Eagle	389-394	197½-200½
Angel	389-394	197½-200½
Krugerrand	377-380	191½-193
New Sov.	89-91	45-46
Old Sov.	89-91	45-46
Noble Plat	423.50-430.25	214.75-218.20

Silver fix	p/fine oz	US cts equiv
Spot	210.15	414.35
3 months	217.25	422.55
6 months	223.45	430.30
12 months	236.00	446.45

TRADED OPTIONS

Coffee	Jan	Mar	Jan	Mar
500	75	67	1	10
550	34	35	10	28
600	11	17	37	60
Cocoa	**Dec**	**Mar**	**Dec**	**Mar**
650	50			
700	8	76	81	27
750		49	50	50
Brent Crude	**Jan**	**Feb**	**Jan**	**Feb**
2900	175			
2950				
3000				

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Nov	377.8	381.4	0	0
Dec	378.5	382.3	381.0	376.3
Jan	380.4	384.2	0	0
Feb	381.7	385.6	384.3	380.0
Apr	385.0	388.9	387.8	383.0
Jun	388.6	392.5	387.7	387.7
Aug	391.9	395.8	391.0	391.0
Oct	395.3	399.2	0	0
Dec	398.8	402.7	400.5	398.5

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Jan	415.2	417.6	418.5	414.0
Apr	419.2	421.8	423.0	417.0
Jul	423.0	425.8	426.7	423.0
Oct	427.2	430.2	430.5	427.0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Nov	410.2	413.0	0	0
Dec	411.0	414.0	414.0	409.0
Jan	413.0	416.0	0	0
Mar	418.5	422.9	422.5	417.5
May	425.5	428.9	427.5	424.5
Jul	431.3	434.6	433.0	431.0
Sep	437.1	440.4	0	0
Dec	445.4	448.7	449.0	445.0
Jan	447.6	450.9	0	0
Mar	454.1	457.4	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Nov	119.05	118.15	119.50	117.70
Dec	116.45	116.10	117.25	115.50
Jan	115.05	114.80	115.20	115.20
Mar	111.75	112.00	112.45	111.60
Apr	110.55	110.80	0	0
May	109.00	109.45	109.70	109.30
Jun	107.80	108.45	0	0
Jul	107.00	107.75	107.75	107.50
Aug	106.00	106.80	0	0
Sep	105.10	105.90	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Jan	29.65	30.72	30.75	29.10
Feb	28.85	29.74	24.00	28.40
Mar	28.00	28.74	28.80	27.70
Apr	27.02	27.76	27.70	26.90
May	26.20	26.86	26.90	26.20
Jun	25.90	26.11	26.25	25.50
Jul	25.40	25.56	25.45	25.20
Aug	24.90	25.13	25.00	24.85
Sep	24.75	24.75	24.76	24.60
Oct	24.40	24.42	24.46	24.25

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Dec	8555	8676	8670	8480
Jan	8480	8645	8630	8370
Feb	8210	8397	8375	8120
Mar	7730	7952	7900	7870
Apr	7315	7507	7456	7250
May	7100	7197	7130	7050
Jun	6880	6992	7050	6865
Jul	6774	6877	6830	6774
Aug	6860	6902	6860	6830

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Dec	1309	1292	1313	1297
Mar	1357	1343	1367	1347
May	1392	1376	1402	1383
Jul	1429	1420	1434	1424
Sep	1464	1455	0	0
Dec	1498	1489	0	0
Mar	1533	1525	1528	1520

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Dec	82.70	84.45	84.75	82.05
Mar	86.40	88.25	88.20	85.80
May	88.85	90.50	90.50	88.30
Jul	91.10	92.95	92.90	90.85
Sep	93.20	94.75	94.65	94.00
Dec	96.05	97.40	0	0
Mar	97.75	99.40	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Mar	9.77	9.85	9.84	9.72
May	9.79	9.83	9.84	9.75
Jul	9.82	9.84	9.85	9.75
Oct	9.81	9.83	9.88	9.75
Mar	9.90	9.86	9.90	9.80

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Dec	74.50	74.34	74.74	74.30
Mar	73.28	73.65	73.90	73.21
May	73.48	73.95	74.10	73.40
Jul	73.82	74.20	74.55	73.82
Oct	67.70	67.76	67.81	67.76
Dec	65.37	65.53	65.60	65.40
Mar	66.05	66.28	66.20	66.20

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	113.10	110.40	113.20	110.75
Mar	114.10	111.70	114.25	112.00
May	114.70	112.30	114.80	112.75
Jul	114.70	112.40	115.05	113.00
Sep	114.70	112.40	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

Nov 20	Nov 19	mnth ago	yr ago
1708.4	1730.0	1734.0	1844.7

DOW JONES (Base: Dec. 31 1974 = 100)

	Nov 19	Nov 16	mnth ago	yr ago
Spot	123.47	122.69	126.81	126.28
Futures	125.81	125.81	128.05	130.05

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Nov	557/0	569/0	565/0	556/0
Jan	566/2	579/6	576/4	564/2
Mar	582/4	594/0	590/0	578/6
May	596/2	607/6	604/4	592/4
Jul	608/2	619/6	615/4	604/6
Aug	610/6	622/4	615/4	608/0
Sep	605/0	612/4	610/0	602/0
Nov	604/0	610/6	609/4	601/4

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Dec	19.85	20.14	20.13	19.78
Jan	20.13	20.41	20.38	20.05
Mar	20.54	20.84	20.80	20.45
May	20.95	21.26	21.16	20.87
Jul	21.25	21.56	21.47	21.20
Aug	21.26	21.55	21.55	21.26
Sep	21.37	21.65	21.58	21.30
Oct	21.45	21.66	21.58	21.40

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Dec	171.9	174.9	173.8	170.0
Jan	174.6	177.4	176.0	172.5
Mar	177.9	181.3	180.3	176.3
May	180.2	183.6	183.0	179.0
Jul	183.5	186.6	186.0	181.8
Aug	184.7	188.0	187.0	183.8
Sep	183.5	186.0	186.5	183.0
Oct	181.5	184.0	182.5	181.5

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Dec	221/6	227/4	226/6	221/4
Mar	232/2	237/6	237/0	232/0
May	240/0	245/0	244/0	239/6
Jul	246/2	251/2	250/6	246/0
Sep	247/2	250/4	250/0	246/4
Dec	248/6	251/6	250/4	247/6
Mar	254/4	258/6	257/0	254/4

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Dec	246/2	252/6	251/0	244/0
Mar	260/2	269/0	265/4	259/6
May	268/4	277/0	275/4	268/4
Jul	276/0	283/4	281/4	275/0
Sep	281/4	288/4	286/0	281/0
Dec	294/0	300/0	295/4	293/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Dec	79.12	79.32	79.52	78.82
Feb	75.85	76.30	76.37	75.50
Apr	75.65	76.57	76.42	75.80
Jun	73.80	74.17	74.12	73.75
Aug	72.17	72.52	72.45	72.10
Oct	72.22	72.70	72.60	72.22
Dec	73.05	73.10	73.10	73.05

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Dec	53.10	53.60	53.42	52.55
Feb	51.22	52.37	52.30	50.92
Apr	48.50	49.40	49.30	48.17
Jun	52.47	53.35	53.25	52.15
Jul	52.75	53.62	53.00	52.40
Aug	50.87	51.50	50.95	50.65
Oct	45.80	46.35	46.10	45.80
Dec	45.80	45.60	45.90	0

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	70.20	72.20	71.70	70.20
Mar	70.00	72.00	71.40	70.00
May	70.55	72.55	71.70	70.55
Jul	69.70	71.70	71.15	69.70
Aug	66.90	68.90	68.05	66.90

LONDON STOCK EXCHANGE

Some big trades late in the session

FIRMNESS in sterling yesterday revived stock market hopes of an early cut in UK interest rates. Selective buying from the big investment institutions helped take the FT-SE Index to a closing level comfortably above the 2,100 mark for the first time in just over three weeks. The final hour of business saw some large share deals moving across the dealing screens, although the market closed well before the outcome of the leadership poll of Britain's ruling Conservative party was known.

Equities opened slowly but turned ahead strongly at mid-morning when the first of several trading programmes passed across the Seaq electronic trading screens. Traders identified three large trading programmes from leading securities houses, including one in the market's Gamma sector which contains the smallest companies with a full quotation in London. Two other smaller programmes were also reported later in the day.

Account Dealing Dates		
First Dealings:		
Nov 5	Nov 19	Dec 10
Option Declarations:		
Nov 15	Dec 6	Dec 27
Last Dealings:		
Nov 16	Dec 7	Dec 28
Account Day:		
Nov 26	Dec 17	Jan 7

*New-time dealings may take place from 9.00 am two business days earlier.

Demand for stocks in the FT-SE 100 list was somewhat patchy but often fairly substantial. A single deal of 5.6m shares in Midland Bank attracted attention late in the session; other leading stocks to record high volume included Prudential, which was still smarting from the decision to abandon its estate agency business, British Steel and Argyll, the food company. Interest rate sensitive stocks, including building material and property issues, also moved higher.

At the day's peak, the FT-SE Index was ahead by more than 27 points. The market came off its best when Wall Street opened to show a fall of 11.8 Dow points in London trading hours. At its final reading of 2,115.2, the FT-SE Index was 19.3 points up on the day. Seaq volume jumped to 518.9m shares from Monday's 400.6m. The increase in turnover came largely towards the end of the session and included a sharp increase in gamma stock turnover from 34.7m to 74.4m.

The return of the sterling exchange rate to above DM2.91 or 94.2 on the sterling exchange rate index buttressed the equity market's hopes that UK interest rates can be cut again soon in order to relieve recessionary pressures on the UK economy. Domestic money supply data for October, released yesterday, showed the expected fall in bank and building society lending, although at £4.6bn it was slightly higher than some City forecasts. Clearing bank lending figures indicated that borrowing by individuals was flat, a sign welcomed in the stock market that high interest rates may have completed their task of squeezing out the excess in consumer spending.

"All the economic numbers are going the market's way," commented Mr Bill Smith, chief equity strategist at Barclays de Zoete Wedd. "The question is, will the currency allow interest rates to fall when they should do so?"

The corporate scene remained somewhat troubled with WPP, the world's largest marketing services group, coming under further heavy pressure as the market pondered the warning on profits from Mr Martin Sorrell, the chief executive. However, on the brighter side was a maintained dividend from ECC, the building materials group.

The stock market appeared to be taking an ambiguous view on the Conservative party leadership election, the result of the first round of voting coming after the London market had closed. Traders were hoping for an end to the political uncertainty through a clear-cut outcome on the first ballot by Conservative members of parliament.

FINANCIAL TIMES STOCK INDICES

	Nov 20	Nov 19	Nov 16	Nov 15	Nov 14	Year Ago	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs	81.10	80.65	80.45	80.19	80.00	83.50	84.20 (2/1)	74.13 (30/4)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	87.27	88.48	88.45	88.40	88.40	83.13	92.81 (8/1)	83.80 (30/4)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1667.1	1648.0	1614.8	1599.6	1583.2	1731.9	1968.3 (3/1)	1510.4 (24/9)	2008.6 (5/9/89)	49.4 (26/6/40)
Gold Mines	155.7	155.0	157.4	156.1	161.7	282.8	378.5 (6/2)	155.0 (19/11)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2115.2	2095.8	2068.0	2060.0	2046.0	2165.1	2463.7 (3/1)	1990.2 (28/9)	2463.7 (3/1/90)	986.9 (23/7/84)
FT-SE Eurotrack 100	974.19	972.67	958.01	955.84	955.48	-	1000.00 (26/10)	948.81 (8/11)	1000.00 (26/10/90)	948.81 (8/11/90)

	Nov 20	Nov 19	Nov 16	Nov 15	Nov 14	Year Ago
Ord. Div. Yield	5.76	5.85	5.96	6.01	6.06	4.82
Earning Yld %(full)	12.03	12.22	12.44	12.54	12.65	11.55
P/E Ratio(Net)(☆)	10.06	9.91	9.73	9.65	9.57	10.46
SEAQ Bargns 4.45pm	24,405	22,369	24,265	20,854	18,490	21,524
Equity Turnover(£m)†	-	889.11	881.00	720.00	632.94	739.24
Equity Bargains†	-	20,482	23,160	19,753	17,457	23,394
Shares Traded (ml)†	-	330.5	360.3	377.2	308.0	308.0

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55, Basis 1000 FT-SE 100 31/12/83 & FT-SE Eurotrack 100 31/8/90. ☆ Nil 9.89

Ordinary Share Index, Hourly changes — Day's High 1672.4 — Day's Low 1648.5

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1648.5	1655.1	1655.6	1670.0	1671.0	1666.6	1668.8	1665.3	1668.4

FT-SE, Hourly changes — Day's High 2123.5 — Day's Low 2095.1

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2095.1	2103.3	2104.8	2120.6	2121.2	2116.8	2115.6	2113.2	2116.9

FT-SE Eurotrack 100, hourly changes — Day's High 975.87 — Day's Low 972.51

Open	10 am	11 am	12 pm	1 pm	2 pm	3 pm
975.87	973.45	973.49	973.76	974.50	973.79	972.51

GILT EDGED ACTIVITY

Indices*	Nov 19	Nov 16
Gilt Edged Bargains	62.8	110.2
5 - Day average	104.6	114.5

*SE Activity 1974.
†Excluding intra-market business & Overseas turnover.

London report and latest Share Index: Tel. 0898.123001

Further setback for WPP

WPP saw its shares decline 164 to 115p as worries grew over the ability of the marketing services company to service its large debt burden. In the two days since the group issued a profits warning the shares have fallen by 70 per cent. There were signs of panic selling by at least one institution as some brokers suggested the shares could fall further.

Turnover yesterday was around four times its normal level. WPP trades are not recorded on the Seaq screens, but analysts estimated that it was around 3m. In the wake of the profits warning, analysts lowered their forecasts by £20m for this year to around £80-90m.

This compares with £75m last year and expectations of £70-80m next year, although Barclays de Zoete Wedd is on £65m.

ECC surprise

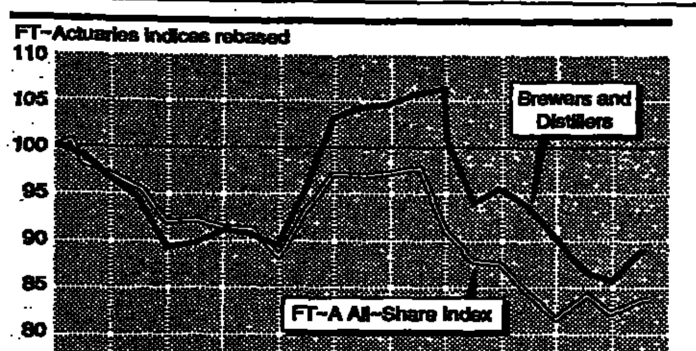
Industrial materials group ECC surprised and pleased the market by maintaining the dividend payment in spite of depressing annual results. More importantly, it encouraged hopes of the same level being held in 1991. The shares thus rebounded to 314p before closing 8 up on the session at 307p.

Annual profits were down 43 per cent at £86.4m and were worse than expected because of heavy exceptional debits. Estimates of 1991 profits were lowered and finally fell within the wide range of £96m to £115m, mainly owing to margins weakness in kaolin prices and increased US competition.

ECC would not be drawn on detailed prospects, but one analyst thought the market was showing a major act of faith in the new chief executive, Mr Andrew Teare. Earnings will need to recover substantially to justify the current level of dividend, he said.

Banking reports

Activity in the banking sector was focused on rumours of a possible association between Midland Bank and Prudential Corporation. Prudential's decision to sell its property arm division, Prudential Property Services, gave rise to suggestions that it may have an interest in a major UK clearing bank.



The outperformance of the brewery sector relative to the FT-A All-Share index this year owes much to its inherent defensive qualities. The long-established view that brewing stocks are relatively recession-proof appears unchanged, in spite of proposals by the Monopolies and Mergers Commission for changes in the ground rules for the industry. The first major deal in this context is the proposed assets swap of breweries for pubs between Grand Metropolitan and Elders IXL, which Mr Peter Lilley, UK secretary for trade and industry, said yesterday he would allow.

However, Midland Bank is itself the centre of bid speculation through its association with HongKong and Shanghai Banking Corporation. There were suggestions in the market that the bank was increasing its stake in Midland Bank after some 8.6m Midland shares were traded, including a late block of 5.6m. HongKong currently has a 14.9 per cent holding in Midland and would need Bank of England approval for any increase under present agreements. Midland finished 3 higher at 195p, while HongKong closed unchanged at 30p.

Reckitt and Colman suffered a fall of 25 to 1,260p. The household and toiletry maker's share price was hit after UBS Phillips & Drew lowered its earnings forecast from £243m to £235m in the year to and from £280m to £265m in the next year.

Mr Ian Moore at UBS Phillips & Drew attributed the lower forecast to a poor outlook in Brazil, where a 50 per cent fall in profits was anticipated due to the sluggish economic environment. Particularly hard hit was the group's industrial pigments business which is sensitive to the slowdown in the economy. However, Mr Moore said: "The big concern is currency and inflation worries in Brazil" which accounts for three-quarters of the group's Latin American profits. Fisons similarly came under pressure, slipping 9 to 364p, although there was no apparent reason for the weakness. "It's all a bit of a mystery to us why the shares are down," said Mr Robin Gilbert at James Capel. He added that the company was still considered a recommendation.

Elsewhere, the pharmaceuticals sector mirrored the market's strength and enjoyed a number of healthy gains. Glaxo rose 10 to 787p and ICI added 12 to 878p.

Barclays Bank led a generally firmer trend among leading bank stocks. Traders stressed that the bank has lagged behind the recent sector rise, and the improvement of 9 to 374p was mostly a catching-up process.

Anglo Irish Bank showed no reaction to an increase in full year profits and a rise in the annual dividend. The company stressed that it was unrealistic to expect growth in the coming year to match that of the past four years.

Prudential Corporation finished unchanged at 200p although turnover was high at 8.3m shares.

The distinction of being the most actively traded stock went to British Steel. Some 19m shares changed hands as the debate raged on whether the group would be able to follow the progressive dividend policy clause made in its privatisation prospectus. The shares again moved against the wider market trend, losing 2 to 112½p.

BAA, the airports operator, advanced 7 to 384p after announcing higher interim profits of £205m compared with £186m. Increased first-half earnings also helped Babcock International, the shares gaining 3 to 40p. News that Bank of New York nominees had an interest of 3 per cent lifted TI Group 11 to 402p. GKN also performed strongly with a rise of 10 to 315p.

The government's decision to allow the proposed Grand Metropolitan/Elders IXL assets swap deal once the companies had given formal undertakings proved to be a damp squib for the brewery sector.

Traders were pleased about the outcome to such an important issue, the first of proposed major changes for the industry, but thought the effects had been discounted recently in the rise of leading brewery shares. GrandMet held a small gain at 593p while most other stocks lost early firmness to close slightly lower on balance.

Bass ran into profit-taking but finally closed a shade firmer at 1036p while Whitbread "A" gave back 3 to 431p awaiting today's interim results. Previewing the brewers' results reason, agency broker Panmure Gordon said there was no compelling case in support of either Whitbread or Scottish & Newcastle; the latter fell 9 yesterday to 368p.

Building stocks were mostly firmer. Hopes of a cut in interest rates, and a report by Professor James Morrell, a leading economic forecaster, suggesting that houses prices would show a rise of an average 20 per cent over the next two years, provided a note of cheer. RMC added 16 to 640p and Redland finished 11 firmer at 545p. Pilkington continued to improve ahead of annual figures due early next month, and rose 6 to 152p.

Argyll was among the busier FT-SE 100 stocks as a line of 3m shares was crossed ahead of interim results on Tuesday. Argyll closed 2 higher at 239p on turnover of 14m and was helped by the growing belief among analysts that, contrary to recent market speculation, Argyll will not accompany its results with a bond issue. Hillsdown was unchanged at 255p as a line of 3.5m shares was crossed, swelling turnover to 9.1m. Hazlewood Foods rose 8 to 134p on relief that interim profits had fallen by only £1.9m to £22m. Some brokers had feared profits would decline to £21.5m.

Speculation of bid possibilities resurfaced in Wiggins Teape Appleton following the recent French deal. Floated off by BAT Industries earlier this year, shares in Wiggins rose 9 to 170p.

Buy recommendations for British Gas met with an enthusiastic reception, helping the share price to edge up 5 to 228p. An expected loss in interim earnings, to be announced on Thursday, was largely irrelevant since British Gas makes well over 90 per cent of its profits in the second half of the business year. Forecasts of an increase in dividends proved to be the more significant factor for the market. Both Hoare Govett and UBS Phillips & Drew forecast a strong rise in interim dividend from 3.2p to 3.7p.

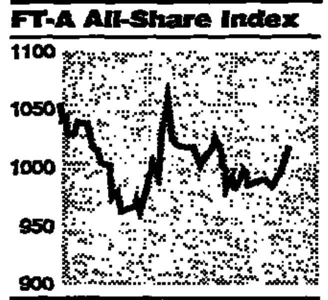
The relative calm in crude oil prices did not prevent strong interest in BP, up 5 to 330 and Shell, higher by 7 at 443p. There was also "virtually unanimous support" for Ultramar, commented Mr Nick Clayton at Smith New Court, which helped it to build on its strength on Monday with a rise of 4 to 343p.

Tuskar Resources, the Irish exploration company, announced a 1-for-2 rights issue in a bid to raise I£8.2m. The issue, which involves the issue of over 87m new ordinary shares, was no help for the share price, which eased 2.5 to 15p.

Water stocks continued to benefit from suggestions that electricity stocks due to be privatised are likely to show a less favourable yield, owing to the high demand for stock. Analysts were keen to point out the relative attraction of water shares; Severn Trent in particular rose 6 to 213p while the Water Package jumped £25 to £2373, already a rise of 3.8 per cent since last Friday.

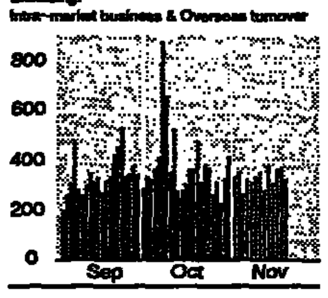
■ Other Market statistics, including the FT-Actuaries share index, Page 30

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)
Excluding:
Intra-market business & Overseas turnover



TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change
ADT	2,600	118	−2
ASDA Group	5,400	131	+2½
Abbey National	1,900	224	+2½
Allied-Lyons	2,200	483	+4
Amstrad	3,800	68	+2
Anglian Water	372	248	+3
Argos	490	258	+6
Argyll Group	14,000	239	+2
Ass. Brit. Foods	434	405	+3
BAA	2,400	384	+7
BAT Inds.	2,100	557	−5
BET	4,000	181	+7
BICC	1,300	342	+8
BOC	1,500	475	+9
BPB Inds.	1,100	185	+5
BTR	3,500	312	+7
Bank of Scotland	1,400	112	+2
Barclays	2,900	374	+9
Bass	512	1036	+2
Beazer	164	95	
Berisford Int.	208	27	−2
Blue Circle	1,400	210	+2
Boots	2,600	335	+2
Brit. Aerospace	242	540	+3
British Airways	713	142	+1
British Gas	7,900	227½	+4½
British Land	1,600	289	+6
BP	8,400	330	+5
British Steel	17,000	112½	−2
British Telecom	3,700	282½	+4½
Bunzl	476	68	
Burmah Castrol	633	445	−1
Burton	5,700	84	+2
Cable & Wire.	2,200	423	
Cadburys	2,700	325	−1
Calor Group	153	207	+2
Carlton Comms.	960	327	−15
Coats Viyella	120	117	
Comm. Union	2,300	480	+11

	Volume 000's	Closing Price	Day's change
Cookson	473	90	
Courtaulds	737	317	+1
Dalgety	288	349	+2
Dixons	2,300	146	+2
ECC Group	1,800	307	+8
Enterprise Oil	858	637	+8
FKI	672	53	−1
Ferranti	1,400	16½	+½
Fisons	2,300	364	−8½
Gen. Accident	774	461	−4
General Elect.	5,900	192	+4
Glaxo	1,000	783	+6
Glynwed Int.	923	200	
Granada	2,100	182	+3
Grand Met.	4,100	593	+3
GUS A	237	1118	+15
GRE	2,500	180	+5
GKN	1,500	315	+10
Guinness	772	746	
Hammerson 'A'	458	598	+7
Hanson	7,500	190¼	+2
Hanson Warrants	0	36½	+½
Harrisons Crosfield	730	135	+2
Hawker Sidd.	714	428	+4
Hillsdown	9,100	255	
IMI	1,400	300	+1
ICI	2,100	883	+17
Inchcape	74	345	+4
Kingfisher	1,200	388	
Ladbroke	6,500	278	−1
Land Securities	1,100	534	+8
Laporte	75	480	
Legal & General	945	378	+5
Lloyds Abbey	218	323	+5
Lloyds Bank	3,800	288	−2
LASMO	1,500	420	+3
Lonrho	1,700	208	+3
Lucas	3,000	137	+2
MB Caradon	1,100	167	−1

	Volume 000's	Closing Price	Day's change
MEPC	475	608	+8
Manpower	100	49	
Marks & Spencer	3,900	238½	−½
Maxwell Comms.	1,000	132	−3
Midland Bank	8,600	195	+3
NatWest Bank	3,800	277	+1
Next	3,300	23	+1
North West Water	1,200	239	+1
Northern Foods	303	350	−1
Northumbrian Water	68	347	+2
Pearson	547	653	−2
P & O	845	503	+4
Pilkington	1,700	152	+6
Prudential	8,300	200	
RHM	1,800	278	+5
RMC	967	640	+16
RTZ	1,200	437	+8
Racal	5,500	188	−1
Racal Telecom	1,000	276	−7
Rank Org.	432	603	+3
Reckitt & Colman	927	1254	−24
Redland	1,700	545	+11
Reed Intl.	1,700	365	−16
Reuters	1,500	644	+1
Rolls Royce	4,700	165	+3
Rothmans	349	700	+5
Ryl Bk Scotland	606	152	
Royal Insurance	1,700	391	+5
STC	951	317	
Saatchi	94	36	−½
Sainsbury	1,000	299	+3
Scottish & New.	1,300	368	−9
Sears	4,100	86	+2
Sedgwick	942	229	−1
Severn Trent Water	2,000	213	+6
Shell Transport	6,500	443	+7
Siebe	230	286	+2
Slough Ests	828	236	+10
Smith (W.H.) A	980	377	+1

	Volume 000's	Closing Price	Day's change
Smith & Nephew	3,700	109½	+3½
SmKl Beecham	842	584	+4
SmKl Beecham Uts.	15	2558	+30
Smiths Inds.	218	220	+1
South West Water	230	248	+6
Southern Water	633	215	+4
Standard Chartd.	162	262	+4
Storehouse	1,000	125	−1
Sun Alliance	1,200	327	−3
Sun Life	34	1033	+8
T&N	2,400	182	−1
TI Group	1,200	402	+11
TSB	6,300	135	+4
Tarmac	4,400	250	
Tate & Lyle	1,600	276	+6
Taylor Woodrow	803	221	−1
Tesco	3,200	229	+2
Thames Water	1,500	243	+4
Thorn EMI	858	644	+7
Trafalgar House	951	167	+2
Trusthouse Forte	4,300	287½	+½
Ultramar	794	343	+4
Unigate	1,000	268	
Unilever	1,200	632	+8
United Biscuits	1,500	330	
Utd. Newspapers	1,100	303	+2
Water Package Uts.	0	£2373	+25
Wellcome	822	378	+12
Welsh Water	258	260	+4
Wessex Water	116	233	+3
Whitbread 'A'	1,100	431	−3
Wiggins Teape	3,700	170	+9
Williams Hldgs.	1,100	230	+1
Willis Corroon	1,400	243	−6
Wimpey	310	214	+4
Yorkshire Water	535	263	+1

Based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 4.30pm.

NEW HIGHS AND LOWS FOR 1990

NEW HIGHS (32).
BRITISH FUNDS (16) CHEMICALS (1) ELECTRICALS (1) FOODS (2) INDUSTRIALS (5) Apollo Metals, Bellerware Cons. Prods., Boots, TRANSPORT (2) TRUSTS (7).
NEW LOWS (88).
AMERICANS (1) CANADIANS (3) BANKS (1) BUILDINGS (2) CHEMICALS (1) STORES (2) ELECTRICALS (8) ENGINEERING (3) FOODS (1) HOTELS (1) INDUSTRIALS (25) Allied Partners, Assoc. British Consultants, BSS, British Fittings, British Steel, Brooks Service, Coalt, Dauphin, Esselte, Expamet Intl., Fenner, Flexello C & W, Gleves, Hartons 7pc Pref., Hawtal Whiting, Kalsey Inds., Lilly (ER), Plastiseal, SEP Intl., Scottish Heritable Trust, Shanks & McEwan, Stotchley, Swallowfield, Tams (John), Wilshaw, LEISURE (4) MOTORS (1) PAPERS (10) PROPERTY (5) TOBACCOS (1) TRANSPORT (2) TRUSTS (10) OILS (1) OVERSEAS TRADERS (2) MINES (8).

APPOINTMENTS

Directors of Laura Ashley

■ LAURA ASHLEY HOLDINGS has appointed Mr David Oliver as director of corporate affairs, responsible for strategic planning and investment appraisal. He was with Bain & Co. Mr Hans Ouwendijk has been promoted from finance director continental European retail division to director of financial control, responsible for the annual budget.

■ Mr Ian Mackenzie, former managing director of Capital House Portfolio Managers, has joined TAYFORTH INVESTMENT SERVICES. Prior to Capital House he had been with The Royal Bank of Scotland investment services.

■ SPECIALIST COMPUTER HOLDINGS GROUP, Birmingham, has promoted Mr James Davies to director of Specialist Computer Centres. He was a regional manager.

■ DELANEY GROUP has appointed Mr Anil Puri as managing director of its Stanley Wood subsidiary. He will also report to the parent company as director responsible for the furniture division. Mr Puri retains his directorship of Blugilt, industrial sub-holding group of Melton Medes which, with chairman Mr Nat Puri, holds 64% of Delaney Group.

■ LEEDS & HOLBECK BUILDING SOCIETY has appointed Mr Philip Holroyd (pictured) as general manager, insurance and investment. He was with National and Provincial Building Society where he was chief executive of three subsidiaries and deputy director of insurance and investments.

■ Mr Simon Watson has become chairman of QUILL WILLS, a home will-writing company. He was managing director of Yelverton Investments, and chairman and chief executive of Southend Properties.

■ WATERGLADE INTERNATIONAL HOLDINGS has appointed Mr Edward Smith as a non-executive director. He is senior credit director at Hill Samuel Bank, from which he will retire on December 31.

■ PAULIG, UK subsidiary of Oy Gustav Paulig, Finland, has appointed Mr Fraser Hall as finance director; Mr Richard Hancock as marketing director; Mr Steve Ramsay as sales director; and Mr Geoff York as operations director. All are internal promotions. Mr Pekka Pirrinen, managing director of subsidiary Pimenta in Finland, becomes a non-executive director.

■ H.E.S. BEHEER has made the following appointments in its subsidiary Bell Lines: Mr Fred Hucker, managing director, based in London; Mr Ronnie Ellis, deputy managing director and director of finance and management services, Dublin; Mr Max Marnet, director of marketing and distribution, Dusseldorf; and Mr Henk Janssens, director of transportation services, Rotterdam.

■ S.T. DUPONT has appointed Mr Martin Winters as managing director. He was general manager.

■ Mr Richard Bristow has been appointed chairman of BNP SECURITIES, London-based European equities subsidiary of Banque Nationale de Paris. He was an executive director of Credit Suisse First Boston, and Credit Suisse White Weld, until his recent retirement. He is a director of The Law Debenture Corporation.

■ As reported on November 14, S.G. WARBURG GROUP has appointed Mr Peter Hardy, Mr Derek Higgs and Mr Hugh Stevenson as managing directors, investment banking. Other appointments made by the group are: S.G. Warburg & Co - Mr Higgs, a deputy chairman, Mr Bob Boas, Mr Maurice Dwek, Mr Martin Gordon and Mr Mark Smith, vice chairmen; S.G. Warburg Securities - Mr Hardy and Mr Michael Sargent, deputy chairmen, and Mr Charles Eglington, a vice chairman; S.G. Warburg France - Mr Micha Spierenburg, president; S.G. Warburg Securities (Far East) - Mr Colin Buchan and Mr Martin Gordon, deputy chairmen; and Mercury Asset Management Group - Mr Steven Zimmerman, a deputy chairman.

Sir John Fairclough (pictured), who recently retired as chief scientific adviser to the Cabinet, becomes chairman of THE ENGINEERING COUNCIL from January 1 for three years. He has joined the boards of N.M. Rothschild and Sons, and Oxford Instruments Group. He was appointed a member of the council in 1982.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1990 High	1990 Low	Stock	Price £	+ or −	Yield Int.	Yield Red.
99⅞	97⅛	Treas 11¾pc 1991	99⅞	.....	11.80	13.60
98⅛	92⅛	Funding 5¼pc '87-91‡‡	98⅛	.....	5.36	10.79
96⅞	89¾	Treas. 3pc 1991	96⅞	.....	3.10	9.64
98⅞	94⅞	Treas 10pc Cv '91 ‡‡	98⅞	.....	10.11	11.72
99½	94⅞	Exch. 11pc 1991	99½	+⅛	11.06	11.49
96¼	90⅞	Treas. 8pc 1991	96¼	+⅛	8.27	11.31
101⅞	97⅞	Treas 12¾pc 1992‡‡	101⅞	+⅛	12.58	11.47
98⅜	92⅜	Treas 10pc 1992	98⅜	+⅛	10.17	10.42
95⅞	89⅞	Treas. 8pc 1992 ‡‡	95⅞	+⅛	8.35	11.25
98⅝	93⅞	Treas 10½pc Cv 1992‡‡	98⅝	+⅛	10.62	11.36
91⅞	82⅞	Treas. 3pc 1992	91⅞	+⅛	3.29	9.26
101⅞	95⅞	Treas. 12¼pc '92	101⅞	+⅛	12.10	11.40
104	98⅞	Exch 13½pc 1992	103⅞	+⅛	13.04	11.28
94⅞	86⅞	Treas 8¾pc 1993	94⅞	+⅛	8.77	11.21
97⅞	90⅞	Treas 10pc 1993‡‡	97⅞	+⅛	10.24	11.12
103⅞	96⅞	Treas 12½pc 1993‡‡	102⅞	+⅛	12.16	11.21
90	82	Funding 6pc 1993‡‡	90	+⅛	6.67	10.16
107⅞	99⅞	Treas 13¾pc 1993‡‡	106⅞	+⅛	12.93	11.18
93	84⅞	Treas. 8¼pc 1994	92⅞	+⅛	9.15	11.16
111⅞	102⅞	Treas 14½pc 1994‡‡	109⅞	+⅛	13.24	10.93
107⅞	99¼	Exch 13½pc 1994	106⅞	+⅛	12.65	11.07
97⅞	88⅞	Treas. 10pc Ln. 1994‡‡	97⅞	+⅛	10.29	10.96
104⅞	96⅞	Exch. 12½pc 1994	104⅞	+⅛	12.01	11.08
93⅞	85	Treas 9pc 1994‡‡	93⅞	+⅛	9.63	11.05
103⅞	94⅞	Treas 12pc 1995	103	+⅛	11.65	11.05
81½	73	Exch 3pc Gas 90-95	81½	+⅛	3.68	8.03
97⅞	88⅞	Exch. 10¼pc 1995	97	+⅛	10.57	11.07

Five to Fifteen Years

1990 High	1990 Low	Stock	Price £	+ or −	Yield Int.	Yield Red.
108	97⅞	Treas 12¾pc 1995‡‡	106⅞	+¼	11.99	11.04
112⅞	101¼	Treas. 14pc '96	109⅞	+¼	12.76	11.41
92⅞	82⅞	Treas. 9pc 1992-96‡‡	92⅞	+⅜	9.76	10.97
119⅞	107⅞	Treas 15¼pc 1996‡‡	115⅞	+⅜	13.21	11.45
110¼	99⅛	Exch 13¼pc 1996‡‡	107⅞	+⅜	12.29	11.27
96⅞	85½	Conversion 10pc 1996	95	+⅜	10.53	11.13
112⅞	98⅞	Treas 13¼pc 1997‡‡	108⅞	+⅜	12.24	11.31
99⅞	87⅞	Exch 10½pc 1997	96⅞	+⅜	10.85	11.20
91⅞	79⅞	Treas 8¾pc 1997‡‡	88⅞	+⅜	9.85	11.11
121⅞	106½	Exch 15pc 1997	116⅞	+⅜	12.89	11.45
95⅞	83½	Exch. 9¾pc 1998	92⅞	+⅜	10.51	11.21
81¼	70⅞	Treas 6¾pc 1995-98‡‡	79⅞	+⅜	8.45	10.75
126⅞	110¼	Treas. 15½pc '98‡‡	120⅞	+⅜	12.85	11.38
107⅞	93¼	Exch. 12pc 1998	103⅞	+⅜	11.60	11.33
95¼	82⅞	Treas 9½pc 1999‡‡	91⅞	+⅜	10.40	11.15
109⅞	94⅞	Exch. 12¼pc 1999	104⅞	+⅜	11.69	11.33
99⅞	85⅞	Treas. 10½pc 1999	95⅞	+⅜	10.95	11.25
98⅞	84⅞	Conversion 10¼pc 1999	94¼	+⅜	10.88	11.27
92⅞	78⅞	Conversion 9pc 2000‡‡	88	+⅜	10.23	11.10
114⅞	98⅞	Treas. 13pc 2000	108⅞	+⅜	11.93	11.43
97⅞	82¼	Treas 10pc 2001	92⅞	+⅜	10.79	11.21
117	102½	Treas. 14pc '98-01	112⅞	+⅜	12.45	11.50
96⅞	81¼	Treas 9¾pc 2002	90⅞	+⅜	10.75	11.17
119⅞	102⅞	Treas. 13¾pc 2000-03	112⅞	+⅜	12.19	11.50
99⅞	82⅞	Treas 10pc 2003	92⅞	+⅜	10.84	11.14
92⅞	91⅞	Treasury 10pc 2003 "A"	92⅞	.....	10.84	11.14
106½	90⅞	Treas. 11½pc 2001-04	100⅞	+⅜	11.44	11.41
56¼	45⅞	Funding 3½pc '99-04	52	+⅜	6.73	9.97
96½	79⅞	Conversion 9½pc 2004	88⅞	+⅜	10.71	11.09
96⅞	79⅞	Conversion 9½pc 2005	88⅞	+⅜	10.71	11.06

Over Fifteen Years

1990 High	1990 Low	Stock	Price £	+ or −	Yield Int.	Yield Red.
117⅝	98⅞	Treas. 12½pc 2003-05	108⅝	+⅜	11.51	11.21
84⅞	69⅞	Treas. 8pc 2002-06‡‡	77⅞	+⅜	10.29	11.02
111⅞	93⅞	Treas. 11¾pc 2003-07	103⅞	+⅜	11.34	11.18
89⅞	73⅞	Treas 8½pc 2007 ‡‡	81⅞	+⅜	10.37	11.06
125⅞	105⅞	Treas. 13½pc '04-08	115⅞	+⅜	11.66	11.18
94½	77⅛	Treas. 9pc 2008 ‡‡	86⅞	+¼	10.45	10.75
85⅞	69⅞	Treas 8pc 2009	77⅞	+⅜	10.26	10.75
94¼	77¼	Conv 9pc Ln 2011 ‡‡	85⅞	+⅜	10.47	10.73
63⅝	50⅞	Treas. 5½pc 2008-12‡‡	57⅞	+⅜	9.61	10.59
83	67¼	Treas. 7¾pc 2012-15‡‡	74⅞	+⅜	10.37	10.71
122¼	100	Exch. 12pc '13-'17	110⅞	+1⅛	10.84	10.73

Undated

1990 High	1990 Low	Stock	Price £	+ or −	Yield Int.	Yield Red.
41⅞	33⅞	Consols 4pc	36⅞	+⅜	10.99	-
36⅞	29⅞	War Loan 3½pc‡‡	32⅞	+⅜	10.78	-
61⅞	55⅞	Conv. 3½pc '61 Aft.	57⅞	+⅜	6.09	-
32⅞	26⅞	Treas. 3pc '66 Aft.	27⅞	+⅜	10.77	-
25⅞	20⅞	Consols 2½pc	23⅞	+⅜	10.77	-
25½	20¼	Treas. 2½pc	23⅞	+⅜	10.87	-

BRITISH FUNDS—Contd

Index-Linked

1990 High	1990 Low	Stock	Price £	+ or −	Yield (1)	Yield (2)
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INT. BANK AND O'SEAS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CORPORATION LOANS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LOANS

Building Societies

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Public Board and Ind.

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FOREIGN BONDS & RAILS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

AMERICANS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

AMERICANS—Contd

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CANADIANS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on next page

LONDON SHARE SERVICE

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BANKS, HP & LEASING

1990 High	Low	Stock	Price	+ or −	Div Net	C'vr	Y'ld Gr's	P/E
£13¼	£9	ABN Amro Fl5	£9¼	−¼	Q28%	2.1	8.9	5.3
303	145	ANZ SA1	156	+6	44c	1.4	11.5	6.2
233	172	Abbey National 10p	224	+2½	5.7	4.3	3.4	9.1
*274	128	Allied Irish Grd	148xd	+6	†040%	3.3	6.1	6.7
85	47	Anglo Irish	53	....	Q17.9%	♦	7.8	♦
93	61	Ansbacher (H.) 1p	61	....	2.5	1.3	5.5	17.6
£71½	£32½	Bancaire Cie Fr100	£48⅞	−⅞	Q12½%	–	2.7	–
£22⅝	£13⅞	Banco Bilbao Viz	£13⅞	+⅛	Q49.1%	2.7	6.0	9.1
286	130	Bank Ireland IrE1	149xd	+7	Q14.7%	2.9	8.8	5.2
£191⅞	£18	Bank Leumi	£19½	.....	–	–	–	–
351	320	Bank Leumi (U.K.)	350	.....	†15.0	–	5.7	–
129½	100	Bank Scotland	112	+2	†4.55	3.4	5.4	7.1
100¼	83¾	Do 9¼pc Irrd Pf	96¼	+1	9¼%	–	12.7	–
54	39	Bank of Wales	42	.....	2.8	0.8	8.9	(20.2)
426	290	Barclays £1	374	+9	m19.57	3.5	7.0	5.2
22	10	Benchmark 20p	10	.....	0.75	–	10.0	–
335	238	Brown Shipley £1	245	.....	12.0	2.2	6.5	7.9
*435	285	Cater Allen £1	360xd	+3	F24.5	–	9.1	–
179	29	Chancery	37	.....	9.0	2.7	–	15
£23¾	£14	Commerzbk DM10	£15⅝	.....	Q18%	–	3.9	–
£13½	620	Dai Ichi KBk Y50	692	−8	Q17%	6.2	0.5	32.7
*£31⅝	£19⅞	Deutsche Bk DM50	£209⅝	+⅞	Q28%	–	2.2	–
£20⅞	£14⅝	Espirito Santo	£15⅝	+⅛	Q75c	5.1	2.4	8.0
253	166	First Nat. Fin. 10p	179	.....	13.0	2.1	9.7	6.2
121	82	FNFC 6.3pc Cv. Pf	90	+1	6.3%	–	9.3	–
£13¼	633	Fuji Bank Y50	808	−8	Q17%	6.9	0.4	34.3
325	262	Gerrard & National	292	+3	19.0	–	8.7	–
154	85	Guinness Mahon 10p	85	..	2.1	–	3.3	–
328	194	Hambros 20p	238	+10	11.5	–	6.4	–
128	86	Do 7.5pc Cv Pf	96	+1	7½%	–	10.4	–
53½	29	HK & Shang HK$2.50	30	....	†hQ38c	–	8.5	–
478	373	Joseph (Leo) £1	373	.....	15.85	–	5.7	–
150	105	King & Shaxson 20p	118xd	+2	10.25	–	11.6	–
423	262	Kleinwort Benson Grp	282	+5	16.0	2.5	7.6	6.7
642	316	Kyowa Bank Y50	384	+7	Q14%	♦	0.8	♦
316	220	Lloyds £1	288	−2	†13.3	2.6	6.2	6.8
56	44	Lon. Scot. Bank 10p	48	.....	†2.4	1.9	6.7	9.5
404	176	Midland £1	195	+3	†18.0	2.6	12.3	4.0
£14½	£10⅞	Mitsubishi Bank Y50	£10⅞	.....	Q17%	♦	0.3	♦
£12¾	£4⅞	Mitsubishi Tst & Bk Y50	£5⅞	.....	Q17%	12.4	0.6	13.7
£10⅝	£4⅞	Mitsui Taiyo Kobe Y50	£6¼	−⅛	†Q16%	6.0	0.5	34.1
904	410	Mitsui Tst & Bk Y50	499	−3	Q17%	♦	0.7	♦
326	220	Nat. Aust. Bk A$1	236	+7	Q55c	♦	9.8	♦
368	227	NatWest £1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ELECTRICALS – Contd

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INSURANCES

LEISURE

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

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MOTORS, AIRCRAFT TRADES—Contd

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY—Contd

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

INVESTMENT TRUST

[illegible]

INVESTMENT TRUST—Contd

[illegible]

INVESTMENT TRUST—Contd

[illegible]

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

[illegible]

For York Trust see Babcock Prebon

WATER

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES—Contd

Tins

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's
35	25	♥Ayer Hitam SM1	25	......	♦Q53.3c	0.7	–
75	45	Gopeng Berhad M$0.50	45	......	Q11c	2.6	4.6
67	27	Malaysia Mng. 10c	27	......	Q7c	2.3	4.9
160	130	Petaling SM1	130	......	Q180c	–	26.0
90	90	Tanjong Tin 15p	90#	......	–	–	–

Miscellaneous

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's
190	85	Anglesey Mining 9p ... γ	88	......	–	–	–
110	8	Do Warrants ... γ	9	–2	–	–	–
17	4½	Anglo-Dominion	6	......	–	–	–
651	196	Bond Intl. Gold	196	–6	–	–	–
37	12	Butte Mining 10p ... γ	12½	......	–	–	–
44	4	♥Colby Mines	5½	......	–	–	–
122	25	Cons. Murch. 10c	25	......	Q30c	5.5	–
26	3	♥DRX Inc.	4	+1	–	–	–
24½	7	♥Ennex Inc. Ir10p ... γ	7½	......	–	–	–
98	20	Europa Minerals 2p ... γ	26	......	1.0	–	5.1
86	25	Geevor ... γ	25	–1	–	–	–
43	13	Greenwich Res. ... β	16	......	–	–	–
£10⅝	£4⅞	♥Hemlo Gold Mines	£5	+¼	SQ20c	–	1.8
£14¼	£8⅝	Homestake Mining $1	£8¾	......	Q20c	–	1.2
49½	13½	♥Kenmare ... γ	14	–½	–	–	–
20¼	7	♥New Sabina Res C$1	14	......	–	–	–
457	61	Northgate Expl. C$1	65	+4	–	–	–
39¾	3½	♥Nor-Quest Res.	5½	+2	–	–	–
255	90	Oryx Gold Hldgs	182	......	–	–	–
93	42	Plateau Mining 20p ... γ	44	......	–	–	–
605	392	RTZ 10p ... α	437	+8	†18.5	2.5	5.6
14	4⅞	♥Thorco Res. Inc.	5¼	......	–	–	–
18	5	Vizcaya Hldgs 5p ... γ	10	......	–	–	–
178	138	♥Young Group 10p ... γ	138	......	†7.8	2.7	7.5

THIRD MARKET

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
30	5	Analysis Hldgs 20p ... γ	6	......	–	–	–	–
53	28	Andaman Res. 10p ... γ	48	–2	–	–	–	–
20½	10½	Automobiles of Dist. 5p ... α	12	......	♦	–	–	–
1½	0¾	Barbican Hldgs. 1p ... γ	1	......	–	–	–	♦
45	31	Biocare 1p ... γ	48	+2	–	–	–	–
18	7	Burmin Exploration ... γ	8	......	–	–	–	–
225	205	Cafe Inns £1	225	......	–	–	–	14.1
22	10	Caldwell Ins. 10p ... γ	10	......	–	–	–	–
16½	10½	Caspen Oil 10p ... γ	13½	–½	–	–	–	♦
25	16	Celtic Gold ... γ	19	......	–	–	–	–
95	36	Chelsea Artisans 5p ... γ	36	......	–	–	–	–
24	6	ChemEx Intl ... γ	15	......	–	–	–	–
215	95	Chyford Storage Serv.	95	......	–	–	–	–
23	10¾	Dana Expl.	12¾	+¼	–	–	–	–
22	9	Edencorp Leisure 5p ... γ	12xd	......	a0.38	5.1	4.2	4.9
65	30	Eglinton Expln. Ir 50p ... γ	31	+1	–	–	–	–
16	2	Do. Wrrnts ... γ	2	–2	–	–	–	–
18	5	Far East Res. 10p	6	......	–	–	–	–
125	105	Fast Forward Ins.	105	......	–	–	–	–
45	4½	Feltrim Mis. Ir0.20	5½	+½	–	–	–	–
55	25	Glencar Expln ... γ	28	......	–	–	–	–
225	65	Haemocell 1p ... γ	87	......	♦	–	–	–
60	23	Hartley Baird 5p ... γ	23	......	0.75	5.9	4.3	4.5
100	65	Hiclare 5p ... γ	70	......	1.0	7.9	1.9	8.7
43	26	Image Store Hldgs 10p ... γ	26	......	–	–	–	–
62	22	Iverola West ... γ	40	......	–	–	–	–
97	46	Kells Mins. Ir5p ... γ	48	......	–	–	–	–
*33	6	Kemp (P.E.) 5p ... γ	6	......	†0.5	–	♦	–
398	225	M.L. Labs. 1p ... γ	225	......	–	–	–	–
6¼	3½	Moray Firth 1p ... γ	3½	......	–	–	–	–
45	20	Navan Resources ... γ	20	......	–	–	–	–
57	20	Ovoca Gold IR 2p ... γ	21	......	–	–	–	–
72	21	Oxford Virology 5p ... γ	21	......	–	–	–	–
83	61	Poddington 5p	77#	......	–	–	–	–
118	65	Ramsden's (Harry) ... γ	68	+3	L4.5	1.1	8.8	13.4
60	24	Rentaminster 5p ... γ	24	......	–	–	–	–
38	7	Semperanova ... γ	9	......	–	–	–	2.0
36	16	Sleepy Kids 5p ... γ	16	......	–	–	–	–
3½	1¼	Systems Connections ... γ	2	......	–	–	–	–
94	48	Tomorrows Leisure 20p ... γ	48	......	1.0	4.4	2.8	8.7
55	27	UPL Group 10p ... γ	32	......	–	–	–	–
89	16	Video Magic Leis. 1p ... γ	16	......	–	–	–	–
6¼	2¼	Vista Eats 5p ... γ	2½	......	–	–	–	–
5½	1¼	Wilton Group 1p ... γ	1¼	......	–	–	–	4.2

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Highs and lows are based on intra-day mid prices. Unless otherwise indicated, prices and net dividends are in pence and *denominations are 25p. Estimated price/earnings ratios and* covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm –) to the current pre-closing share price. *The NAV basis assumes prior charges at par value, convertibles* converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- # Price at time of suspension
- ¶ *Indicated dividend after pending scrip and/or rights issue;* cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a *Annualised dividend.* b *Figures based on prospectus or* other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C *Canadian. E Minimum tender price. F Dividend and yield based* on prospectus or other official estimates for 1990-91. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1991. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1991. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose £1 ... γ	700xd	......
Finlay Pkg. 5p ... γ	38	+2
Holt (Jos) 25p ... γ	1985	......

IRISH

Cap. 8½% Ln. 1991	£98¾	......
9pc Cap Ln. 1996	£93¼	+¼
Fin. 13% 97/02	£118½	......
Arnotts	167½	......
Carrol (P.J.)	154	......
Helton Hldgs ... γ	45	......
IRG	153¼	......
United Drug	133	......

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	40
Amstrad	6
Astec (BSR)	4½
BAT	45
BOC Grp	39
BTR	29
Barclays	27
Blue Circle	17
Boots	21
Bowaters	41
Brit Aerospace	43
British Steel	10½
Brit. Telecom	22
Cadburys	26
Charter Cons	37
Comm Union	37
Courtaulds	25
Eurotunnel	48
FKI	5¾
FNFC	20
Gen Accident	37
GEC	14
Glaxo	57
Grand Met	44
Guardian	15
GKN	27
Hanson	16
Hawker Sidd	39
ICI	78
Ladbroke	22
Legal & Gen	29½
Lex Service	28
Lloyds Bank	23
Lucas Inds	11
Marks & Spencer	18
Midland Bk	20
Nat West Bk	18
P & O Dfd	42
Racal Elect	14
RHM	23
Rank Org Ord	49
Reed Intl	30
STC	19½
Sears	8½
SmKl. Beecham A	44
TI	37
TSB	18
Tesco	19
Thorn EMI	49
Trust Houses	21
T&N	14
Unilever	58
Vickers	19
Wellcome	38

Property

Brit Land	24
Control Secs	3½
Land Securities	42
MEPC	38
Mountleigh	11

Oils

Aviva Petlm	3½
Brit Petroleum	28
Burmah Castrol	44
Conroy Petlm	20
Gaelic Res	2
Premier	8½
Shell	40
Tuskar Res	6
Ultramar	31

Mines

Lonrho	21
RTZ	40

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AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
American Income	6	38.80	38.80	41.49	+0.08	6.60
Gilts & Fixed Int	6	107.9	107.9	114.5	+0.8	10.04
High Inc Equity	6	114.1	114.1	122.0	+0.9	5.20
Worldwide Bond	6	189.8	188.8	200.2	+0.6	7.49

Marks & Spencer Unit Trust Ltd (1200)F
PO Box 410, Chester X, CH99 9QG 0244 680066

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
M & S Inv P'folio	5½	97.40	97.40	104.1	+0.6	2.88
Do Accum	5½	101.3	101.3	108.3	+0.6	2.88
UK Sel P'folio	5½	86.71	86.71	92.73	+1.3	3.77
Do Accum	5½	88.29	88.29	94.42	+1.32	3.77

Marlborough Managed Trust (1630)F
57 Victoria Square, Bolton, BL1 1LA 0204 364842

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Managed Tst	5	46.03	46.32	49.27	.....	5.27

Martin Currie Unit Trusts Ltd (0905)H
48 Melville St, Edinburgh EH3 7HF Dlng:031-220 4924

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Far East (Pacific)	5¼	78.86	79.26	84.14	-0.25	0.50
Income & Growth	5¼	51.07	51.07xd	54.21	+0.8	6.35
European (z)	5¼	50.68	50.89	54.02	+0.42	1.09
Nth American (z)	5¼	28.67	28.72	30.48	+0.17	1.72
Intl Growth	5¼	49.68	50.81xd	53.93	+0.24	0.95
UK Growth	5¼	43.91	43.91xd	46.61	+0.38	3.71
Intl Income	5¼	42.50	43.06	45.71	+0.39	6.59
High Yield	5¼	40.10	40.68xd	43.18	+0.28	8.06
Charities	5¼	77.61	78.92xd	83.77	+0.74	7.30
Japan	5¼	34.66	34.66	36.79	-0.26	-

Matheson Unit Trust Managers Ltd (1200)H
Admin: 5 Rayleigh Rd, Hutton, Brentwood, Essex
Enquiries: 0277 227300 Dealing: 0277 261010

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
SE Asia	6	39.49	39.49	42.24	+0.13	2.70
UK Growth (4-1)	6	58.02	58.02	62.05	-0.91	3.98
UK High Income	6	30.43	30.43	32.55	+0.28	6.21

Mayflower Management Co Ltd (1200)F
PO Box 249, Beckenham, Kent BR8 4WA 081-663 3111

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Income	5	294.5	299.5	318.6	+3.6	5.65
Global Inc	5	41.91	41.91	44.58	+0.28	5.42
Brit Leaders	5	238.3	238.3	253.9	+2.7	4.34
Intl Leaders	5	121.5	121.5	129.2	+0.3	3.18

Medical Investments Ltd (1100)F
1 White Hart Yard, London SE1 1NX 071-407 5966

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Health Fund	5½	43.96	43.96	48.11	-1.88	.34

Mercury Fund Managers Ltd (1000)H
33 King William St, EC4R 9AS 071-280 2060

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
American Growth	5	102.7	103.0xd	109.9	+0.40	0.46
(Accum Units)	5	109.6	110.0xd	117.3	+0.50	0.46
American Income	5	30.82	30.82	32.82	+0.16	9.11
(Accum Units)	5	41.08	41.08	43.74	+0.21	9.11
American Sm Cos	5	37.45	37.45xd	39.95	+0.36	0.00
(Accum Units)	5	37.96	37.96xd	40.50	+0.37	0.00
British Blue Chip	5	51.57	51.67xd	55.12	+0.09	3.21
(Accum Units)	5	56.82	56.93xd	60.73	+0.10	3.21
Cash*	0	101.9	102.0	102.0	.....	14.30
(Accum Units)*	0	107.3	107.5	107.5	+0.10	14.30
European Growth	5	149.6	149.6	158.8	-1.10	1.06
(Accum Units)	5	158.8	158.8	168.6	-1.00	1.06
European Income	5	62.41	62.41	66.28	-0.02	4.92
(Accum Units)	5	72.79	72.79	77.31	-0.02	4.92

Murray Johnstone UT Mgmt (1600)H
7 West Nile St, Glasgow G2 2PX 0345 090 933

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Acumen	5	56.71	57.29	61.15	+0.39	3.80
Acumen Reserve	5	60.35	60.35	63.57	.....	11.30
American Income	5	94.83	94.83	100.5	-0.10	4.29
Equity Income	5	72.54	72.54	77.43	+0.60	6.41
European	5	48.16	48.16	51.17	-0.18	1.59
Far Eastern	5	87.75	87.75	93.18	+0.34	2.01
Smaller Cos	5	37.40	37.40xd	39.92	+0.04	5.20
Olympiad	5¼	36.88	36.88	39.29	+0.03	1.30
Olympiad Income	5¼	34.67	34.67xd	36.86	+0.16	4.79
UK Growth	5	60.31	61.28	65.41	+0.45	1.52

NFU Mutual Unit Mngrs Ltd (1400)F
Admin: 5 Rayleigh Road, Hutton, Brentwood, Essex
Enquiries 0277 227300 Dealing 0277 261010

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Avon Equity	6	78.56	79.98	85.08	+0.26	4.44

NM Unit Trust Mngrs (1200)H
The Blitzen Centre, North Harbour, Portsmouth
Enquiries: 0705 372222 Dealing: 0705 387790

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
American ♥	5¼	24.15	24.13xd	25.73	+0.17	1.98
(Accum Units) ♥	5¼	25.97	25.97	27.70	+0.17	1.98
Australian ♥	5¼	136.10	136.90	146.80	+2.70	2.44
(Accum Units) ♥	5¼	154.90	155.90	167.30	+3.10	2.44
Conscience	5¼	41.30	42.14	44.97	+0.44	1.75
(Accum Units)	5¼	42.80	43.68	46.61	+0.46	1.75
European	5¼	129.30	129.30xd	137.90	-0.40	1.13
(Accum Units)	5¼	135.90	135.90	144.90	-0.40	1.13
Extra Income	5¼	56.31	56.31	60.09	-0.15	10.17
(Accum Units)	5¼	74.74	74.74	79.76	-0.19	10.17
Far East Gth Acc ♥	5¼	100.70	100.70xd	107.60	-1.00	0.29
Gilt & F.I.	5¼	49.38	49.40	52.27	+0.15	9.58
(Accum Units)	5¼	100.50	100.50	106.30	+0.30	9.58
Gold ♥	5¼	27.15	27.31xd	29.56	+0.18	0.00
(Accum Units) ♥	5¼	29.23	29.41	31.62	+0.20	0.00
Income	5¼	42.15	42.15	44.96	+0.06	8.25
(Accum Units)	5¼	111.20	111.20	118.40	+0.10	8.25
Intnl.	5¼	21.11	21.11xd	22.45	-0.03	0.49
(Accum Units)	5¼	29.91	29.91	32.09	-0.04	0.49
Jap Smaller Cos ♥	5¼	312.60	312.60	333.40	-1.20	0.00
Sing & Malaysian ♥	5¼	80.07	80.07	85.86	+0.80	0.00
(Accum Units) ♥	5¼	83.44	83.44	89.47	+0.83	0.00
Smaller Co's	5¼	23.35	23.35	25.10	+0.05	1.75
(Accum Units)	5¼	25.78	25.78	27.72	+0.05	1.75
Special Sits	5¼	22.70	22.70xd	24.40	+0.09	1.07
(Accum Units)	5¼	24.72	24.72	26.58	+0.11	1.07
Tokyo ♥	5¼	62.45	62.45	66.61	-0.80	0.00
(Accum Units) ♥	5¼	63.08	63.08	67.28	-0.81	0.00
UK Equity	5¼	117.40	117.40	125.20	+1.30	4.88
(Accum Units)	5¼	202.50	202.50	216.00	+2.40	4.88
US Smaller Cos ♥	5¼	37.33	37.33xd	39.32	+0.35	0.00

National Provident Inv Mngrs Ltd (1400)H
48 Gracechurch St, EC3P 3HH 071-623 4200

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
NPI American Acc ♥	5	56.32	56.37	59.97	+0.42	1.68
NPI American Dist ♥	5	52.99	53.03	56.42	+0.40	1.68
NPI European Acc	5	63.73	64.36	68.47	+0.05	0.67
NPI European Dist	5	62.73	63.36xd	67.40	+0.05	0.67
NPI Far East Acc ♥	5	92.01	92.29	98.18	-0.12	0.30
NPI Far East Dist ♥	5	91.35	91.62	97.47	-0.13	0.30
NPI O'seas Acc	5	747.0	751.0	798.9	+7.00	1.37
NPI O'seas Dist	5	584.0	587.2	624.7	+1.70	1.37
NPI UK Acc	5	410.3	414.3	440.7	+0.20	5.04
NPI UK Dist	5	228.0	230.1xd	244.8	.....	5.04
NPI W'wide Acc	5	59.16	60.16	64.00	+0.07	0.57
NPI W'wide Dist	5	56.92	57.88xd	61.57	+0.06	0.57

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071 – 379 – 0444.

FT MANAGED FUNDS SERVICE

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Target Trust Mngrs Ltd (1600)F						
Target Hse, Gatehouse Rd, Aylesbury, Bucks.						
Admin: 0296 394000 Dealing: 0296 312156						
American Eagle	5	58.04	58.04	61.97	+0.24	1.24
Australia	5	5.302	5.302	5.676	+0.12	4.70
Equity	5	140.2	140.2	150.6	+1.0	5.11
Euro Spec Sits	5	97.42	97.42	104.8	-0.6	0.66
Financial	5	24.89	24.89	26.80	+0.03	5.57
Global Opps Inc	5	56.25	56.25xd	60.49	-0.06	0.00
Global Opps Acc	5	57.47	57.47	61.80	-0.07	0.00
Gold & Gen Inc	5	33.86	33.86xd	36.47	+0.22	1.10
Gold & Gen Acc	5	63.36	63.36	68.18	+0.41	1.10
Income	5	87.66	87.74	94.21	+0.27	6.79
Japan & General	5	108.1	108.1	116.2	-1.0	0.00
Preference Share	5	17.50	17.50xd	18.82	+0.07	14.10
UK Capital	5	77.05	77.05	82.81	+0.57	4.22
World Income	5	53.11	53.11	57.09	+0.42	6.19
Worldwide Capital	5	145.8	145.8	156.8	+0.5	3.49
Templeton Unit Trust Managers Ltd (1200)F						
Atholl Crescent, Edinburgh EH3 8HA 031 228 3952						
Global Growth Acc	6	91.12	91.91	98.30	+0.47	3.62
Global Growth Inc	6	87.54	88.31	94.44	+0.45	3.62
Global Balanced Acc	6	92.93	93.44	99.93	+0.58	4.79
Global Balanced Inc	6	86.57	87.05	93.10	+0.54	4.79
Value Tst Acc	6½	67.74	68.85	73.62	-0.67	4.62
Value Tst Inc	6½	66.05	67.11	71.78	+0.66	4.62
Intl Pen & Ch'ties Inc	2	85.18	86.46	90.78	—	4.00
Intl Pen & Ch'ties Acc	2	82.20	83.44	87.60	—	4.00
Thornhill Unit Trust Managers Ltd (1200)F						
28 St John's Sq, London EC1M 4AE 071-251 6767						
Capital	5	44.76	45.04	47.91	—	—
Overseas	5	39.57	39.71	42.24	—	—
Thornton Unit Managers Ltd (1000)F						
33 Cavendish Sq., London W1M 0DH 071-493 7262						
Dealing 071-493 8545						
American Opps	5	41.57	41.57	44.33	+0.53	0.25
(Accum Units)	5	42.77	42.77	45.62	+0.54	0.25
Cash	0	51.07	51.07	51.07	—	14.00
Accum Units	0	51.07	51.07	51.07	—	14.00
European Opps	5	55.65	55.65xd	59.25	-0.47	0.00
(Accum Units)	5	55.96	55.96xd	59.56	-0.47	0.00
Far Eastern Opps	5	98.03	98.03	104.53	-0.35	0.00
(Accum Units)	5	98.65	98.65	105.20	-0.35	0.00
Golden Opps	5	25.23	25.23	26.78	+0.37	0.00
(Accum Units)	5	25.95	25.95	27.55	+0.39	0.00
Intl Hi-Yield	5	47.50	47.50	50.59	-0.03	5.44
(Accum Units)	5	51.78	51.78	55.15	-0.03	5.44

	Bid Price	Offer Price	+ or -	Yield Gr's
Murray Johnstone UT Mngmt				
Murray Exempt Funds				
Amer Expt Nov 13	37.4	38.8	+0.20	[illegible]
Euro Expt Nov 13	46.9	49.2	-1.00	[illegible]
Fixed Int Ex Nov 13	44.5	45.7	+0.50	[illegible]
Japan Expt Nov 13	39.1	40.8	-1.30	[illegible]
Managed Ex Nov 14	36.5	37.9xd	—	[illegible]
SE Asia Expt Nov 13	54.7	57.4xd	+0.50	[illegible]
Sm Cos Expt Nov 13	27.8	29.1xd	-0.30	[illegible]
UK Eqty Ex Nov 13	35.7	37.4	+0.50	[illegible]
Phillips & Drew Fund Management Ltd				
Small Co's Nov 6	589.8	652.5xd	—	[illegible]
Do Accum	656.0	709.2	—	[illegible]
Int Expt Nov 7	144.3	148.5	—	[illegible]
UK Index Nov 6	960.6	982.0	—	[illegible]
Do Accum	1016	1037	—	[illegible]
Convertible Nov 14	78.09	80.66	—	[illegible]
World ex UK Index Nov 19	636.60	645.20	+3.8	[illegible]
Do Accum	642.86	651.55	+3.8	[illegible]
Japan Index Nov 19	512.40	519.90	+6.4	[illegible]
Do Accum	513.40	520.80	+6.4	[illegible]
USA Index Nov 19	733.1	737.80	+2.4	[illegible]
Do Accum	743.4	748.1	+2.4	[illegible]
Europe ex UK Index Nov 19	791.90	811.0	+8.9	[illegible]
Do Accum	803.80	823.50	+9.0	[illegible]
Pacific ex Jap Index Nov 19	715.00	735.40	+5.7	[illegible]
Do Accum	728.5	749.2	+5.7	[illegible]
Managed Exempt Nov 11	88.1	89.74	—	[illegible]
American Exempt Nov 14	98.97	100.5	—	[illegible]
European Exempt Nov 14	101.5	102.8	—	[illegible]
Japan Exempt Nov 14	102.1	103.3	—	[illegible]
Pacific Basin Nov 7	96.46	98.76	—	[illegible]
NM Rothschild Asset Management Ltd				
NC Managed	52.2	55.6xd	+0.2	4.3
NC Property	174.3	191.2	—	
J. Rothschild Fund Managers Ltd				
Intl Exempt Accum	118.3	119.2xd	—	4.2
Stewart Ivory & Co Ltd				
Saints PPP Oct 12	224.9	236.8	—	
Closed to new business				
Thornton Unit Managers Ltd				
Managed Exempt Nov 1	81.55	85.68xd	—	4.8
(Accum Units)	83.81	88.05xd	—	4.8

INSURANCES

AA Friendly Society — [table not transcribed]

Abbey Life Assurance Co Ltd — [table not transcribed]

Albany Life Assurance Co Ltd — [table not transcribed]

Alliance Life Insurance Co Ltd — [table not transcribed]

Allied Dunbar Assurance Plc — [table not transcribed]

American Life Insurance Co UK — [table not transcribed]

Avon Insurance Plc — [table not transcribed]

Barclays Life Assur. Co Ltd — [table not transcribed]

Black Horse Life Ass. Co Ltd — [table not transcribed]

Britannia Life Ltd — [table not transcribed]

CCL Assurance Ltd — [table not transcribed]

Canada Life Group — [table not transcribed]

Cannon Assurance Ltd — [table not transcribed]

Century Life Plc — [table not transcribed]

Citicorp British National — [table not transcribed]

City of Westminster Assurance Co Ltd — [table not transcribed]

Clerical Medical/Fidelity Investments — [table not transcribed]

Clerical Medical Investments Group — [table not transcribed]

Clerical Medical Managed Funds Ltd — [table not transcribed]

Colonial Mutual Group — [table not transcribed]

Commercial Union Group — [table not transcribed]

Confederation Life Insurance Co — [table not transcribed]

Cornhill Insurance PLC — [table not transcribed]

Crown Financial Management Ltd — [table not transcribed]

Crusader Insurance Plc — [table not transcribed]

Eagle Star Insurance Co Ltd — [table not transcribed]

Eagle Star Insur/Midland Assur. — [table not transcribed]

Economic Insurance Company Ltd — [table not transcribed]

Equitable Life Assurance Society — [table not transcribed]

Equity & Law — [table not transcribed]

Family Assurance Society — [table not transcribed]

Friends Provident — [table not transcribed]

GT Unit Managers Ltd — [table not transcribed]

General Accident — [table not transcribed]

General Portfolio Life Insur Plc — [table not transcribed]

Assicurazioni GENERALI SpA — [table not transcribed]

Gresham Unit Assurance Ltd — [table not transcribed]

Growth & Sec. Life Assce. Soc. Ltd — [table not transcribed]

Guardian Royal Exchange — [table not transcribed]

Hearts of Oak Insurance Group — [table not transcribed]

Henderson Administration — [table not transcribed]

Hill Samuel Life Assur. Ltd — [table not transcribed]

Homeowners Friendly Society — [table not transcribed]

Ideal Insurance Co Ltd — [table not transcribed]

Interlife Assurance Co Ltd — [table not transcribed]

Irish Life Assurance Co Plc — [table not transcribed]

Lancashire & Yorkshire Assce Society — [table not transcribed]

Laurentian Life plc — [table not transcribed]

Legal & General (Unit Assur) Ltd — [table not transcribed]

Legal & General (Unit Pensions) Ltd — [table not transcribed]

Liberty Life Assurance Co Ltd — [table not transcribed]

The Life Association of Scotland — [table not transcribed]

Lifetime Assurance Co Ltd — [table not transcribed]

London Indemnity & Gnl. Ins. Co Ltd — [table not transcribed]

London Life — [table not transcribed]

London & Manchester Group — [table not transcribed]

M & G Life and M & G Pensions — [table not transcribed]

MGM Assurance — [table not transcribed]

Manchester Unity Assurance — [table not transcribed]

ManuLife Group PLC — [table not transcribed]

Merchant Investors Assurance Co Ltd — [table not transcribed]

Mercury Life Assurance Co Ltd — [table not transcribed]

Midland Life Limited — [table not transcribed]

NEL Britannia Assce Co Ltd — [table not transcribed]

NEL Pensions Ltd — [table not transcribed]

NM Life Assurance Ltd — [table not transcribed]

N & P Life Assurance Ltd — [table not transcribed]

National Financial Management Corp PLC — [table not transcribed]

National Mutual Life — [table not transcribed]

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd — [table not transcribed]

Cent. Bd. of Fin. of Church of England — [table not transcribed]

Edinburgh Fund Mngrs PLC — [table not transcribed]

Fidelity Investment Services Ltd — [table not transcribed]

Robert Fleming Asset Mngmt Ltd — [table not transcribed]

Funds in Court — [table not transcribed]

Henderson Unit Trust Management Ltd — [table not transcribed]

Lazard Brothers & Co. Ltd — [table not transcribed]

Lazard Investors Ltd — [table not transcribed]

Local Authorities Mutual Invest. Tst. — [table not transcribed]

M & G Securities Ltd — [table not transcribed]

MIM Ltd — [table not transcribed]

Morgan Grenfell Unit Trust Managers Ltd — [table not transcribed]

Continued on next page

FT MANAGED FUNDS SERVICE

● Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 071-925-2128

National Provident Institution

48 Gracechurch St, London EC3P 3HH 071-623 4200

	Bid Price	Offer Price	+ or -	Yield Gross
Managed	303 5	319 5	+0.4	–
UK Equity	380 5	400.6	+0.1	–
Overseas Eq.	286 8	301 9	+0.8	–
Americas	209.6	220.7	+1.6	–
Far East	296 9	312.6	-0.3	–
Property	192.6	202.8	+0.1	–
Fixed Int.	235 4	247.8	+0 6	–
Indexed Gilt	148.3	156 2	+0 5	–
Deposit	172.6	181.7	+0.1	–
Pension Fund (Accum Units)				
Managed	420 1	442.3	+1.3	–
UK Equity	486.0	511.6	+2.3	–
Overseas Eq.	469 6	494 4	+0.1	–
Americas	276.5	291.1	+1.6	–
Far East	494 2	520 3	-2.0	–
Property	239.4	252.0	+0.2	–
Fixed Int.	286 1	301.2	+0.9	–
Indexed Gilt	163.2	171.8	+0 6	–
Deposit	237.5	250.1	+0.1	–
NPI Pensions Management Ltd				
Managed Fund	928.8	945.4	—	–

Prices Nov 1 Next dealing Dec 3

Norwich Union Asset Management Ltd

PO Box 140, Norwich NR3 1PP 0603 686787

	Bid Price	Offer Price	+ or -	Yield Gross
NUAM Funds				
Managed Fund	61.6	64 8	+0.4	–
Stock Market Mngd Fund	57.8	60.9	+0.4	–
Equity Fund	66.4	69.9	+0.7	–
International Fund	50.5	53.2	+0.1	–
European Fund	61.3	64 6	-0 1	–
North American Fund	48.4	51.0	+0.2	–
Pacific Fund	50.3	53 0	-0.1	–
Property Fund	[illegible]	[illegible]	–	–

[illegible]

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

[illegible]

CANADA (SIB RECOGNISED)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

OFFSHORE INSURANCES

[illegible]

MANAGEMENT SERVICES

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

FT MANAGED FUNDS SERVICE

● Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 071-925-2128

	Bid Price	Offer Price	+ or -	Yield Gross
Bankrust Management (Guernsey) Ltd				
Dankrust Limited	DKr116.1	116.3		
Fleming-Cowell Fund Mngrs (Guernsey) Ltd				
Hannaville C & G Fd	SFr7.80	7.85		2.30
John Govett Mngmnt International Ltd				
Govett High Inc Gilt	£0.3530	0.3762	+0.019	13.02
Govett Far East Inv	$0.898	0.960	-0.005	
Energy & Resources	$0.659	0.704	-0.005	
Hambros Fund Managers (CI) Ltd				
Japanese OTC	$8.9370	9.5125		
Hambros Throgmorton Mngmt Ltd				
Intl Inv-Stlg High Inc	£9.905	10.590		10.09
Intl Inv-Intl High Inc	$49.160	51.759		5.54
Henderson Admin. (Guernsey)				
Franklin Portfolio	£0.908			
Balanced Grth $ Prtflo	$1.817	1.963		
Balanced Grth £ Prtflo	£1.043	1.115	+0.002	
Select Mkts $ Prtflo	$1.857	1.986	+0.006	
Inc & Grth $ Prtflo	$1.691	1.790	+0.010	
High Income £ Prtflo	£0.599	0.630		
Hill Samuel Fd. Mngrs. (Guernsey) Ltd				
Guernsey Tst	64.71	69.20	+0.85	2.90
Kleinwort Benson Intl Fd Mngrs Ltd				
KB Int.Ac. Bd.Acc*	£8.688	9.149		
KB Japan Fund	$210.49		+4.44	
KB Sterling Assets	£29.37	29.37		
*Offer price inclusive of maximum preliminary charge				
Kleinwort Benson Islamic Fd Mgmt Ltd				
Islamic Fund	$5.75	6.15		0.40
Lazard Fund Managers (CI) Ltd				
Lazard Cap. Grth Bond	$2863.11	3023.56	+24.98	7.8
Lazard Cur Acc Fd £	£18.78	18.79	+0.04	13.4
Lazard Cur Acc Fd US$	$14.68	14.69	+0.02	6.9
Lazard Cur Acc Fd Y	Y3,820	3,830	+10	6.9
Lazard Cur Acc Fd DM	DM51.47	51.48	+0.07	7.9
Lazard Cur Acc Fd SF	SF97.14	97.15	+0.05	7.1
Lazard Cur Acc Fd FF	FFr158.57	158.59	+0.28	8.75
Lazard Cur Acc Fd Man	$15.69	16.49	+0.06	
Lazard D'Hes Bnd Dacl	$19.49	20.54		

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Capital House Fund Mgrs—Contd.						
Bonds						
Sterling Bond	5	£1.394	1.394	1.470		–
International Bond	5	$1.845	1.845	1.947		–
Currencies						
£ Sterling	0	£24.82	24.82		+0.01	14.02
US$	0	$18.91	18.91			6.52
Japanese Yen	0	Y3,604	3,604		+1.0	6.52
D Marks	0	DM58.12	58.12		+0.02	6.79
Swiss Francs	0	SFr51.10	51.10		+0.01	6.44
Fr Francs	0	FFr228.4	228.4		+0.1	8.32
Ecu's	0	Ecu27.16	27.16			8.44
Managed						
Intl Portfolio	5	$1.648	1.667	1.769		–
Managed Currency	5	$2.101	2.101	2.212		–
Gartmore Fund Managers International Ltd						
PO Box 278, 45 La Motte St., Jersey 0534 27535						
Capital Strategy Fund Ltd (z)						
American Fd	$		1.420			–
Canadian Fd	C$		0.7847			1.00
British Fund	£		2.247			3.00
European Fund	DM		3.230			–
Eastern European	DM		4.452			–
Asia Pacific Fd	$		1.895			–
Japan Fund	Y		382.9		-4.0	–
Australasian Fd	A$		0.3099			1.00
Global Resources	$		0.7396			0.70
Emerging Mkts Fd	$		.9761			0.50
Int Growth Fund	$		2.798			0.20
Sterling Bond Fd	£		1.024			10.32
ECU Bond Fund	Ecu		0.9659			9.04
Int Bond Fund	$		1.273			6.65
Global Conv Bd Fd	$		17.52		+0.02	1.48
US$ Deposit Fd	$		1.052			6.87
Sterling Deposit Fd	£		1.032			13.14
French Franc Dep Fd	FFr		10.66			8.61
Swiss Fr Dep.	SFr		5.227			7.38
DM Deposit Fd	DM		5.251			7.17
Yen Deposit Fd	Y		523.3		+0.2	6.81
Aust Dlr Deposit Fd	A$		1.097			11.34
John Govett (Channel Islands) Ltd (1000)F						
PO Box 443, St. Helier, Jersey 0534 75141						

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Pound down on Tory ballot

STERLING FELL sharply in New York on news that Mrs Margaret Thatcher had failed to gain an outright victory in her bid to remain UK prime minister, after the ballot for leadership of the ruling Conservative party.

Reaction from Mr Neil MacKinnon, chief economist at Yamaichi, and Mr David Coleman, economist at Union Discount, was that this was the worst possible news for sterling, creating a further period of uncertainty for the currency. Mr MacKinnon said that Mrs Thatcher's position is now in doubt and this lack of confidence in her leadership was likely to result in selling of sterling assets by international investors.

On the other hand, Mr David Deakin at Nikko Bank remarked that Mr Michael Heseltine stood for change and a better relationship with the European Community.

Immediately after the election result the pound fell to $1.9600 and to DM2.9000 in New York.

Trading had closed in London before the result of the leadership election, but at that time the pound was little changed against the dollar, easing to $1.9700 from $1.9705. It had also fallen to Y254.00 from Y254.25, but was firmer in terms of European currencies, rising to DM2.9100 from DM2.9050; to FFr9.8150 from FFr9.8025; and to SFr2.4575 from SFr2.4525. Sterling's index rose 0.2 to 94.2.

The dollar had a firmer tone against most currencies, but eased in terms of the Japanese yen, after failing to break through resistance at Y129.00.

In New York the Federal Reserve tended to confirm an easing of its monetary stance. It added money to the banking system, via $3bn of customer repurchase agreements, when Federal funds were trading at 7⅜ per cent, compared with the assumed target of 7¼ per cent.

In Frankfurt the Bundesbank did not intervene when the dollar rose to DM1.4760 from a record low of DM1.4680 at the fixing.

At the London close the dollar had improved to DM1.4770 from DM1.4740; to FFr4.9825 from FFr4.9750; and to SFr1.2470 from SFr1.2450, but had eased to Y128.90 from Y129.00. Its index rose to 60.0 from 59.8.

In Paris the franc improved against the D-Mark after the French government defeated a vote of no confidence in parliament on Monday. At the Paris fixing the D-Mark fell to FFr3.3718 from DM3.3786. The Italian lira also gained ground against the D-Mark, on profit taking, without intervention by the Bank of Italy. The D-Mark was fixed at L752.70, after rising to an all-time high of L754.45 on Monday.

The Bundesbank's securities repurchase tender in Frankfurt, adding liquidity to the money market at a fixed 8.00 per cent, was taken as an indication that the German central bank is looking for stable interest rates. This kept trading steady among ERM currencies.

£ IN NEW YORK

Nov.20	Latest	Previous Close
£ Spot	1.9710-1.9720	1.9735-1.9745
1 month	1.00-0.98pm	0.98-0.96pm
3 months	2.69-2.66pm	2.67-2.64pm
12 months	7.97-7.87pm	8.07-7.97pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Nov.20	Previous
8.30 am	94.1	93.9
9.00 am	94.1	94.0
10.00 am	94.1	94.1
11.00 am	94.2	94.0
Noon	94.2	94.0
1.00 pm	94.2	94.0
2.00 pm	94.2	94.1
3.00 pm	94.1	94.0
4.00 pm	94.2	94.0

CURRENCY MOVEMENTS

Nov.20	Bank of England Index	Morgan** Guaranty Changes %
Sterling	94.2	-18.7
US Dollar	60.0	-18.7
Canadian Dollar	101.0	-0.5
Austrian Schilling	110.4	+12.5
Belgian Franc	112.3	-1.6
Danish Krone	111.4	+5.7
D-Mark	120.4	+26.4
Swiss Franc	116.0	+24.4
Dutch Guilder	115.5	+17.2
French Franc	105.8	-10.9
Italian Lira	100.0	-19.3
Yen	134.7	+70.0

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100). **Rates are for Nov.19.

CURRENCY RATES

Nov 20	Bank rate %	Special * Drawing Rights	European † Currency Unit
Sterling	-	0.735601	0.704398
U.S Dollar	7	1.45540	1.38872
Canadian $	12.82	1.68987	1.61189
Austrian Sch	6½	15.0078	14.4205
Belgian Franc	10¼	44.0925	42.3351
Danish Krone	10½	8.19136	7.86432
D-Mark	6.00	2.13359	2.05031
Dutch Guilder	7.25	2.40683	2.31277
French Franc	10¼	7.21032	6.91374
Italian Lira	12½	1609.97	1543.01
Japanese Yen	6	187.416	178.659
Norway Krone	8	8.35705	8.02472
Spanish Peseta	-	135.704	130.151
Swedish Krona	11	8.02277	7.69212
Swiss Franc	6.00	1.80294	1.73173
Greek Drach	20½	N/A	210.655
Irish Punt	-	N/A	0.765895

† European Commission Calculations.
* All SDR rates are for Nov 19

OTHER CURRENCIES

Nov 20	£	$
Argentina	10335.0 - 10380.0	5240.00 - 5260.00
Australia	2.5635 - 2.5655	1.2955 - 1.2965
Brazil	231.75 - 232.85	117.50 - 118.00
Finland	6.9885 - 7.0024	3.5490 - 3.5520
Greece	296.85 - 301.60	150.55 - 152.95
Hong Kong	15.3610 - 15.3650	7.7875 - 7.7895
Iran	125.50*	63.55*
Korea(Sth)	1397.10 - 1419.70	711.40 - 717.00
Kuwait	N/A	N/A
Luxembourg	60.05 - 60.15	30.45 - 30.56
Malaysia	5.2970 - 5.3100	2.6880 - 2.6900
Mexico	5789.00 - 5812.00	2935.00 - 2945.00
N.Zealand	3.2145 - 3.2195	1.6295 - 1.6315
Saudi Ar	7.3780 - 7.4195	3.7490 - 3.7510
Singapore	3.3670 - 3.3750	1.7075 - 1.7095
S.Af (Cm)	4.9720 - 4.9850	2.5220 - 2.5250
S.Af (Fn)	6.8995 - 7.0230	3.5025 - 3.5650
Taiwan	53.80 - 53.90	27.25 - 27.30
U.A.E.	7.2265 - 7.2675	3.6720 - 3.6740

* Selling rate

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Nov 20	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Spanish Peseta	133.631	130.151	-2.60	3.78	46
D-Mark	2.05586	2.05031	-0.27	1.35	19
Irish Punt	0.767417	0.765895	-0.20	1.28	10
Belgian Franc	42.4032	42.3351	-0.16	1.24	9
Dutch Guilder	2.31643	2.31277	-0.16	1.24	9
French Franc	6.89509	6.91374	0.27	0.80	-13
Danish Krone	7.84195	7.86432	0.29	0.79	-12
Italian Lira	1538.24	1543.01	0.31	0.76	-14
Sterling	0.696904	0.704398	1.08	0.00	-21

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
Adjustment calculated by Financial Times.

POUND SPOT - FORWARD AGAINST THE POUND

Nov 20	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.9670 - 1.9755	1.9695 - 1.9705	1.01-0.99cpm	6.09	2.69-2.66pm	5.43
Canada	2.2850 - 2.2960	2.2865 - 2.2875	0.32-0.24cpm	1.47	0.82-0.69pm	1.32
Netherlands	3.27½ - 3.28½	3.27½ - 3.28½	1½-1¼cpm	5.26	3¾-3½pm	4.50
Belgium	59.85 - 60.20	60.05 - 60.15	28-22cpm	4.99	69-60pm	4.29
Denmark	11.14 - 11.18	11.15½ - 11.16½	4½-3¾orepm	4.44	9¼-8pm	3.11
Ireland	1.0835 - 1.0905	1.0870 - 1.0880	0.36-0.30pm	3.64	0.86-0.72pm	2.91
Germany	2.90½ - 2.91½	2.90½ - 2.91½	1½-1¼pfpm	5.93	3½-3¼pm	4.55
Portugal	255.30 - 256.80	255.35 - 256.35	19-41cdis	-1.41	138-200dis	-2.64
Spain	183.95 - 185.05	184.45 - 184.75	8-16cdis	-0.78	45-57dis	-1.11
Italy	2187¼ - 2193½	2188¼ - 2189¼	2½-1½lirepm	1.06	8-6pm	1.28
Norway	11.35 - 11.41¼	11.40¼ - 11.41¼	3-2¼orepm	2.70	6½-5pm	2.02
France	9.79¾ - 9.82½	9.81 - 9.82	3¾-3¼cpm	4.05	8½-8pm	3.36
Sweden	10.89 - 10.94½	10.91¼ - 10.92¼	¼-1oredis	-0.69	3-4½dis	-1.37
Japan	253¼ - 254½	253½ - 254½	1¼-1¼ypm	5.61	3¼-3½pm	5.02
Austria	20.44 - 20.49	20.44 - 20.47	9-8½gropm	5.02	23¾-21¼pm	4.39
Switzerland	2.45¼ - 2.46¼	2.45¼ - 2.46¼	1¼-1cpm	5.19	3-2¾pm	4.78
Ecu	1.4110 - 1.4145	1.4120 - 1.4130	0.51-0.48cpm	4.21	1.18-1.13pm	3.27

Commercial rates taken towards the end of London trading. Six-month forward dollar 4.64-4.59cpm. 12 Month 8.05-7.75cpm

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Nov 20	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.9670 - 1.9755	1.9695 - 1.9705	1.01-0.99cpm	6.09	2.69-2.66pm	5.43
Ireland†	1.8100 - 1.8150	1.8120 - 1.8130	0.36-0.31cdis	-2.22	1.17-1.07pm	2.47
Canada	1.1590 - 1.1630	1.1590 - 1.1600	0.44-0.46cdis	-4.66	1.19-1.23dis	-4.17
Netherlands	1.6620 - 1.6675	1.6645 - 1.6655	0.07-0.10cdis	-0.61	0.31-0.36dis	-0.80
Belgium	30.40 - 30.55	30.45 - 30.55	1.50-3.00cdis	-0.89	6.50-10.00dis	-1.08
Denmark	5.65 - 5.66¼	5.66¼ - 5.66¾	0.97-1.17oredis	-2.27	3.05-3.65dis	-2.37
Germany	1.4725 - 1.4795	1.4765 - 1.4775	0.05-0.07pfdis	-0.49	0.32-0.35dis	-0.91
Portugal	130.10 - 130.30	130.20 - 130.30	97-107cdis	-9.40	255-285dis	-8.29
Spain	93.30 - 93.80	93.70 - 93.80	50-54cdis	-6.66	153-159dis	-6.66
Italy	1109 - 1112¼	1110¼ - 1111¼	4.40-4.90liredis	-5.02	11.80-12.80dis	-4.43
Norway	5.76½ - 5.79¾	5.78¾ - 5.79¼	1.45-1.80oredis	-3.37	4.70-5.20dis	-3.42
France	4.96½ - 4.98½	4.98 - 4.98½	0.77-0.82cdis	-1.91	2.25-2.35dis	-1.85
Sweden	5.53 - 5.54½	5.54 - 5.54½	3.20-3.65oredis	-7.42	9.15-9.85dis	-6.86
Japan	128.35 - 128.95	128.85 - 128.95	0.02-0.04ydis	-0.29	0.08-0.11dis	-0.29
Austria	10.36¼ - 10.39½	10.39 - 10.39½	0.75-1.10grodis	-1.07	2.30-3.30dis	-1.08
Switzerland	1.2435 - 1.2490	1.2465 - 1.2475	0.03-0.07cdis	-0.48	0.17-0.24dis	-0.66
Ecu	1.3935 - 1.3975	1.3960 - 1.3970	0.24-0.23cdis	-2.02	0.75-0.73dis	-2.12

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EURO-CURRENCY INTEREST RATES

Nov 20	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	14¼ - 14	14¼ - 14	14¼ - 14⅛	13⅝ - 13½	13⅛ - 13	12⅝ - 12½
US Dollar	7⅞ - 7¾	7⅞ - 7⅞	7⅞ - 7⅞	8⅛ - 8	8 - 7⅞	8 - 7⅞
Can. Dollar	12¼ - 12	12⅛ - 12	12⅛ - 12⅛	12⅛ - 11⅞	11⅞ - 11⅞	11⅛ - 11⅞
Dutch Guilder	8⅞ - 8¾	8⅞ - 8⅞	8½ - 8⅞	8¾ - 8⅞	9 - 8⅞	9⅛ - 9
Swiss Franc	8⅞ - 8⅞	8⅞ - 8⅞	8⅞ - 8⅞	8⅞ - 8⅞	8⅞ - 8½	8½ - 8⅞
D-Mark	8⅛ - 8	8⅛ - 8⅛	8⅛ - 8⅛	8⅞ - 8⅞	9⅛ - 9	9⅛ - 9⅛
French Franc	9⅞ - 9⅛	9⅞ - 9⅞	9⅞ - 9⅞	9⅞ - 9⅞	10 - 9⅞	10⅛ - 10⅛
Italian Lira	13 - 11	13½ - 12½	13⅛ - 12⅞	12½ - 12	12⅛ - 11⅞	12⅛ - 11⅞
Belgian Franc	8⅞ - 8⅞	8⅞ - 8⅞	8⅞ - 8⅞	9⅛ - 9⅛	9½ - 9⅛	9⅞ - 9⅞
Yen	7⅞ - 7⅞	8⅛ - 8	8⅛ - 8⅛	8⅞ - 8⅞	8⅞ - 8⅞	8½ - 8⅞
Danish Krone	9⅞ - 9⅞	9⅞ - 9⅞	10⅛ - 10	10⅞ - 10⅛	10⅞ - 10½	10⅞ - 10½
Asian $Sing	7⅞ - 7⅞	7⅞ - 7⅞	8⅛ - 8	8 - 7⅞	8 - 7⅞	8 - 7⅞

Long term Eurodollars: two years 8⅛-8¼ per cent; three years 8⅜-8¼ per cent; four years 8⅞-8⅞ per cent; five years 8⅞-8⅞ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Nov.20	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.970	2.910	254.0	9.815	2.458	3.280	2189	2.287	60.10
$	0.508	1	1.477	128.9	4.982	1.248	1.665	1111	1.161	30.51
DM	0.344	0.677	1	87.29	3.373	0.845	1.127	752.2	0.786	20.65
YEN	3.937	7.756	11.46	1000.	38.64	9.677	12.91	8618	9.004	236.6
F Fr.	1.019	2.007	2.965	258.8	10.	2.504	3.342	2230	2.330	61.23
S Fr.	0.407	0.801	1.184	103.3	3.993	1	1.334	890.6	0.930	24.45
H Fl.	0.305	0.601	0.887	77.44	2.992	0.749	1	667.4	0.697	18.32
Lira	0.457	0.900	1.329	116.0	4.484	1.123	1.498	1000.	1.045	27.46
C $	0.437	0.861	1.272	111.1	4.292	1.075	1.434	957.1	1	26.28
B Fr.	1.664	3.278	4.842	422.6	16.33	4.090	5.458	3642	3.805	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

	Close	High	Low	Prev.
Dec	92.19	92.16	92.16	92.18
Mar	92.00	91.99	91.98	91.98
Jun	91.75			91.74
Sep	91.61			91.62

Est. Vol. (inc. figs. not shown) 3982 (3879)
Previous day's open int. 45957 (45934)

THREE MONTH EUROMARK
DM 1m points of 100%

	Close	High	Low	Prev.
Dec	90.95	90.97	90.88	90.90
Mar	91.09	91.10	91.04	91.07
Jun	91.12	91.12	91.08	91.10
Sep	91.12	91.12	91.09	91.10
Dec	91.13			91.11
Mar	91.14	91.11	91.11	91.12
Jun	91.14	91.11	91.11	91.12
Sep	91.14	91.11	91.11	91.12

Estimated volume 10739 (8766)
Previous day's open int. 78775 (77842)

THREE MONTH ECU
ECU 1m points of 100%

	Close	High	Low	Prev.
Dec	89.93	89.93	89.91	89.92
Mar	90.14	90.15	90.15	90.12
Jun	90.16			90.13
Sep	90.23			90.23

Estimated volume 62 (215)
Previous day's open int. 1594 (1535)

FT-SE 100 INDEX
£25 per full index point

	Close	High	Low	Prev.
Dec	2150.0	2160.0	2124.0	2127.0
Mar	2183.5	2190.0	2168.0	2161.0
Jun	2219.0			2197.0

Estimated volume 5770 (5705)
Previous day's open int. 27756 (27292)

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.9700	1.9600	1.9433	1.9239	1.8900

IMM-STERLING $s per £

	Latest	High	Low	Prev.
Dec	1.9638	1.9640	1.9618	1.9646
Mar	1.9408	1.9408	1.9386	1.9408
Jun	-	-	1.9200	1.9216

	Open	Close	Change	High	Low	Yield	Open int.
March	90.11	90.14	+0.03	90.18	90.11	9.86	14,280
June	90.08	90.10	+0.03	90.14	90.08	9.89	1,706
September	-	90.12	+0.04	90.15	90.12	9.88	1,046

Estimated volume 9,299 Total Open Interest 34,3%

CAC-40 FUTURES (MATIF) Stock Index

	Open	Close	Change	High	Low	Open int.
November	1665.0	1641.0	-10.0	1666.0	1638.0	7,631
December	1672.0	1654.0	-3.5	1672.0	1651.0	1,826
January	1678.0	1668.0	+3.0	1678.0	1668.0	50
March	-	-	-	-	-	-

Estimated volume 7,519 Total Open Interest 9,507

BASE LENDING RATES

	%		%		%
ABN Bank	14	Coutts & Co	14	NatWestminster	14
Adam & Company	14	Cyprus Popular Bk	14	Northern Bank Ltd	14
Allied Trust Bank	14	Dunbar Bank PLC	14	Nykredit Mortgage Bank	14½
AIB Bank	14	Duncan Lawrie	14	Provincial Bank PLC	15
● Henry Ansbacher	14	Equatorial Bank plc	14	Roxburghe Bank Ltd	14½
Associates Cap Corp	15½	Exeter Trust Ltd	14½	Royal Bk of Scotland	14
● B & C Merchant Bank	14	Financial & Gen. Bank	14	Royal Trust Bank	14
Bank of Baroda	14	First National Bank Plc.	16	● Smith & Williamson Secs.	14
Banco Bilbao Vizcaya	14	● Robert Fleming & Co.	14	Standard Chartered	14
Bank Credit & Comm	14	Robert Fraser & Ptnrs.	14½	TSB	14
Bank of Cyprus	14	Girobank	14	Unibank plc	14
Bank of Ireland	14	● Guinness Mahon	14	● United Bk of Kuwait	14
Bank of India	14	HFC Bank plc	14	United Mizrahi Bank	14
Bank of Scotland	14	● Hambros Bank	14	Unity Trust Bank Plc	14
Banque Belge Ltd	14	Hampshire Trust Plc	14½	Western Trust	14
Barclays Bank	14	Heritable & Gen Inv Bnk.	14	Westpac Bank Corp.	14
Benchmark Bank	14	● Hill Samuel	14	Whiteaway Laidlaw	14
Brit Bk of Mid East	14	C. Hoare & Co.	14	Yorkshire Bank	14
● Brown Shipley	14	Hongkong & Shangh	14		
CL Bank Nederland	14	● Leopold Joseph & Sons	14		
● Charterhouse Bank	14	Lloyds Bank	14		
Citibank NA	14	Meghraj Bank Ltd	14		
City Merchants Bank	14	McDonnell Douglas Bnk.	14		
Clydesdale Bank	14	Midland Bank	14		
Comm. Bk. of London Plc	14	Mount Banking	14		
Co-operative Bank	*14	Nat Bk. of Kuwait	15		

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MONEY MARKETS

London rates ease

INTEREST RATES eased on the London money market yesterday, ahead of the outcome of the ballot for the leadership of the ruling UK Conservative party. Sentiment pointed towards the possibility that the ultimate victor could be forced to cut bank base rates because of the weakness in the British economy.

Figures on UK bank lending for October suggested that British companies may be engaged in distressed borrowing, as lending to manufacturers and retailers increased in October, while borrowing by the private sector was flat.

Three-month sterling interbank fell to 13⅝-13½ from 13⅞-13⅝ per cent and 12-month money declined to 12⅝-12½ from 12⅞-12⅝ per cent.

UK clearing bank base lending rate 14 per cent from October 8, 1990.

Prices of short sterling futures were firmer on Liffe. The December contract opened at 86.91 and rose to a peak of 86.97. It closed at 86.92 compared with 86.84 previously.

The Bank of England forecast a shortage of £450m on the cash money market, but revised this to £400m at noon and to £350m in the afternoon. Total help of £364m was provided. Before lunch the authorities bought £136m bills outright, by way of £2m Treasury bills in band 1 at 13⅞ per cent and £134m bank bills in band 1 at 13⅞-13⅞ per cent. In the afternoon £108m bank bills were purchased in band 1 at 13⅞-13⅞ per cent. Late assistance of around £120m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £237m, with exchequer transactions absorbing £45m and bank balances below target £245m. These outweighed a fall in the note circulation adding £75m to liquidity.

In Frankfurt call money fell to 8.00 from 8.05 per cent after the Bundesbank set a tender for a 35-day securities repurchase agreement, at a fixed rate of 8.00 per cent. This will be required to offset an expiring facility of DM13.1bn. Dealers suspect that the central bank will drain funds at the tender because of relatively high liquidity levels in the market.

In Brussels the Belgian National Bank raised the interest rate on four-month paper, issued by the Securities Regulation Fund, to 9.00 from 8.90 per cent.

Short-term Treasury bill rates, including the important three-month rate, were left unchanged.

FT LONDON INTERBANK FIXING

(11.00 a.m. Nov.20) 3 months US dollars		6 months US Dollars	
bid 8	offer 8⅛	bid 7⅞	offer 8

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime)

Prime rate	10
Broker loan rate	9½
Fed. funds	7⅜
Fed. funds at intervention	-

Treasury Bills and Bonds

One month	6.71	Three year	7.72
Two month	7.16	Four year	7.88
Three month	7.35	Five year	7.98
Six month	7.43	Seven year	8.22
One year	7.37	10-year	8.33
Two year	7.61	30-year	8.49

Nov.20	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	7.95-8.05	8.20-8.30	8.65-8.80	8.70-8.85	8.85-9.00	8.50
Paris	9⅞-9⅞	9⅞-9⅞	9⅞-9⅞	9⅞-9⅞	9⅞-10⅛	9.50
Zurich	7⅞-7⅞	8⅛-8⅞	-	8½-8⅞	-	-
Amsterdam	8.10-8.20	8.43-8.50	-	8.75-8.85	-	-
Tokyo	8⅛-8⅛	8⅛-8⅛	-	8⅛-8⅛	-	-
Milan	10⅞-10⅞	13⅞-14	-	13-13⅛	-	-
Brussels	10.10	8⅞-8⅞	-	9⅛-9⅛	-	-
Dublin	10-10½	10⅞-10½	10⅞-10⅞	10⅞-10⅞	10⅞-11⅛	-

LONDON MONEY RATES

Nov 20	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	14½	14¼	14⅛	13⅝	13⅛	12⅝
Interbank Bid	12	14	14	13½	12⅞	12½
Sterling CDs	-	-	14⅛	13⅝	13⅛	12⅝
Local Authority Deps.	14⅛	14⅛	14⅛	13⅝	13	12⅝
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps.	14¼	14¼	13⅞	13¼	-	-
Company Deposits	-	-	14⅛	13⅞	13⅛	12⅝
Finance House Deposits	-	-	14⅛	13⅝	13⅛	12⅝
Treasury Bills (Buy)	-	-	13⅞	13⅛	-	-
Bank Bills (Buy)	-	-	13⅞	13⅞	12⅞	-
Fine Trade Bills (Buy)	-	-	14⅞	13⅞	12⅞	-
Dollar CDs	-	-	7.90	8.10	7.95	7.90
SDR Linked Dep. Offer	-	-	8⅞	9⅛	9⅛	9⅛
SDR Linked Dep. Bid	-	-	8⅛	9	8⅞	8⅞
ECU Linked Dep. Offer	-	-	9⅞	10⅛	10⅛	10¼
ECU Linked Dep. Bid	-	-	9¼	10⅛	10⅛	10¼

Treasury Bills (sell); one-month 13⅞ per cent; three months 13 per cent; six months 12⅞ per cent; Bank Bills (sell): one-month 13⅞ per cent; three months 13⅛ per cent; Treasury Bills; Average tender rate of discount 13.0333 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day October 31, 1990. Agreed rates for period Nov 26, 1990 to Dec 25, 1990, Scheme I: 15.08 p.c., Schemes II & III: 15.32 p.c. Reference rate for period Sept 29, 1990 to Oct 31, 1990, Scheme IV&V: 14.164 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 15 from November 1, 1990: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 10½ per cent; one-three months 12 per cent; three-six months 12 per cent; six-nine months 12 per cent; nine-twelve months 11½ per cent; Under £100,000 10½ per cent from Oct 8, 1989. Deposits withdrawn for cash 5 per cent.

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

JOTTER PAD

CROSSWORD

No.7,399 Set by TANTALUS

ACROSS

1 Ambled out to meet old woman (6)
4 Wrong to be sick with a last pancake? (8)
10 Artist and soldier said you are showing bitterness (7)
11 Chat endlessly about Channel Island – it's warm (7)
12 Chaps enjoy recess in here (4)
13 Ewe for example (10)
15 Anchor designed by ferryman (6)
16 Announce building cleared (7)
20 Edward receives the strap (7)
21 Heard plane (6)
24 Boy joins mother and son on 29 September (10)
25 Firm officer provides pistol (4)
28 Number return in 27 with horseshoe (7)
29 School coach (7)
30 Put up with new role in gallery (8)
31 Find out I've left policeman (6)

DOWN

1 Gorge when you notice pub managed by accountant (8)
2 Settles by headland to view painting (9)
3 Initially, all landowners order evergreen plant (4)
5 Layman not expected to win race (8)
6 I let hood out; note surveying instrument (10)
7 Fruit cut by man at W. Indian dance (5)
8 Snake entwines general out to the world (6)
9 Love to understand nymph (5)
14 Steer farm vehicle to supplier (10)
17 Disapprove of scamp (9)
18 Run with fleet at sea – it's ebbing! (6)
19 Aware nurse sees I am under canvas (8)
22 A Greek character allowed to have a charm (6)
23 Girl upset about father (5)
25 Is an apprentice able to construct waterway? (5)
27 Pupil gets acceptable note from old music maker (4)

Solution to Puzzle No.7,398

MOROSE SPIGOT
STUDIED GLAMOUR
CHICKENFOX LOPS
FOLIO RAPIDITY
GRADIENT RISER
EWES CONTROLLER
OMNIBUS ADVERSE
NEEDLE VESTAL

WORLD STOCK MARKETS

AUSTRIA
[illegible]

BELGIUM/LUXEMBOURG
[illegible]

DENMARK
[illegible]

FINLAND
[illegible]

FRANCE
[illegible]

FRANCE (continued)
[illegible]

GERMANY
[illegible]

GERMANY (continued)
[illegible]

ITALY †
[illegible]

ITALY † (continued)
[illegible]

NETHERLANDS
[illegible]

NORWAY
[illegible]

SPAIN
[illegible]

SWEDEN
[illegible]

SWITZERLAND
[illegible]

SOUTH AFRICA
[illegible]

JAPAN
[illegible]

AUSTRALIA
[illegible]

AUSTRALIA (continued)
[illegible]

HONG KONG
[illegible]

MALAYSIA
[illegible]

SINGAPORE
[illegible]

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. [illegible] † Italian prices unavailable owing to industrial action on Milan bourse.

CANADA

TORONTO
2pm prices November 20
Quotations in cents unless marked $

[illegible]

f – No voting rights or restricted voting rights.

INDICES

NEW YORK

DOW JONES	Nov. 19	Nov. 16	Nov. 15	Nov. 14	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2565.35	2550.25	2545.05	2559.65	2999.75 (16/7)	2365.10 (11/10)	2999.75 (16/7/90)	41.22 (2/7/32)
Home Bonds	90.15	89.95	89.76	89.89	93.04 (3/1)	88.44 (24/9)	—	—
Transport	867.79	864.46	867.97	877.59	1212.77 (6/6)	821.93 (17/10)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	208.69	208.25	207.43	208.75	236.23 (2/1)	190.96 (24/8)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High 2580.69 (2570.79) Low 2543.07 (2522.28)

STANDARD AND POOR'S

	Nov. 19	Nov. 16	Nov. 15	Nov. 14	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	319.34	317.12	317.02	320.40	368.95 (16/7)	295.46 (11/10)	368.95 (16/7/90)	4.40 (1/6/32)
Industrials	374.31	371.23	371.23	375.22	437.37 (16/7)	346.86 (11/10)	437.37 (16/7/90)	3.62 (21/6/32)
Financial	22.27	22.23	22.23	22.53	31.87 (3/1)	18.80 (29/10)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	174.34	173.30	173.12	174.68	201.13 (16/7)	162.20 (11/10)	201.13 (16/7/90)	4.46 (25/4/42)
Amex Mkt. Value	296.47	297.52	296.69	297.87	382.45 (5/1)	288.07 (30/10)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	352.73	350.85	354.52	356.87	469.60 (16/7)	325.44 (16/10)	485.73 (9/10/89)	54.87 (31/10/72)

	Nov. 16	Nov. 9	Nov. 2	year ago (approx.)
Dow Industrial Div. Yield	4.01	4.09	4.08	3.93

	Nov. 14	Nov. 7	Oct. 31	year ago (approx.)
S & P Industrial div. yield	3.39	3.55	3.54	2.97
S & P Indl. P/E ratio	15.47	14.48	14.43	14.25

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day
USF & G	2,578,400	7¾	- 2⅛
Philip Morris	2,164,000	49	+ ⅞
IBM	1,860,800	114¼	+ 1¼
Gen. Electric	1,573,400	55⅛	—
AT & T	1,417,600	51⅞	- ⅛
Texas Ut.	1,284,100	37⅛	- ⅛
Pepsico	1,267,900	26	+ ½
Fannie Mae	1,266,600	32⅛	+ ⅜
Exxon	1,133,300	50⅛	+ ⅛
Ford Motor	1,123,600	27⅛	- ⅛

TRADING ACTIVITY

† Volume (Millions)	Nov. 19	Nov. 16	Nov. 15
New York	140.950	166.804	151.370
Amex	8.841	9.144	10.207
NASDAQ	108.265	131.971	117.971
Issues Traded	1,991	1,991	1,970
Rises	896	775	593
Falls	615	699	899
Unchanged	480	517	478
New Highs	8	13	9
New Lows	44	32	28

CANADA

TORONTO	Nov. 19	Nov. 16	Nov. 15	Nov. 14	1990 HIGH	1990 LOW
Metals & Minerals	2571.69	2549.00	2541.13	2568.91	3453.05 (4/1)	2486.60 (8/11)
Composite	3132.99	3128.51	3114.51	3127.64	4009.47 (3/1)	3009.91 (16/10)
MONTREAL Portfolio	1677.48	1676.30	1664.92	1676.49	2060.90 (3/1)	1607.24 (16/10)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Nov. 20	Nov. 19	Nov. 16	Nov. 15	1990 HIGH	1990 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1365.5	1348.0	1339.9	1345.3	1713.7 (12/1)	1291.2 (2/11)
All Mining (1/1/80)	639.7	632.4	629.9	638.3	860.8 (5/1)	627.2 (2/11)
AUSTRIA						
Credit Aktien (30/12/84)	454.83	456.25	448.44	446.57	703.29 (19/3)	400.98 (25/9)
BELGIUM						
Brussels SE (Cash Mkt) (1/1/88)	5121.11	5082.28	5070.60	5074.62	6599.43 (12/1)	4959.99 (25/9)
DENMARK						
Copenhagen SE (3/1/83)	334.27	335.43	336.84	336.14	388.29 (20/7)	331.41 (27/9)
FINLAND						
Unitas General (1975)	410.2	409.3	407.8	406.5	677.3 (23/1)	398.9 (24/10)
FRANCE						
CAC General (31/12/82)	430.12	426.71	422.07	421.98	564.62 (30/5)	410.12 (26/9)
CAC 40 (31/12/87)	1633.15	1633.65	1612.10	1598.02	2129.32 (20/4)	1485.39 (25/9)
GERMANY						
FAZ Aktien (31/12/58)	633.04	633.40	621.26	615.55	832.32 (19/7)	569.69 (28/9)
Commerzbank (1/12/53)	1798.2	1799.6	1763.2	1747.8	2414.0 (3/4)	1628.7 (28/9)
DAX (30/12/87)	1467.30	1467.47	1425.68	1421.19	1968.55 (30/3)	1334.89 (28/9)
HONG KONG						
Hang Seng Bank (31/7/64)	3031.92	3042.58	3008.66	2990.47	3559.89 (23/7)	2738.24 (1/2)
IRELAND						
ISEQ Overall (4/1/88)	1233.11	1214.74	1205.35	1212.28	1893.10 (22/1)	1205.35 (16/11)
ITALY						
Banca Com. Ital. (1972)	(u)	(u)	(u)	518.61	763.52 (14/6)	518.61 (15/11)
JAPAN						
Nikkei (16/5/49)	23205.48	23518.16	23171.63	23487.48	38712.88 (4/1)	20221.86 (1/10)
Tokyo SE (Topix) (4/1/68)	1719.79	1740.06	1720.12	1745.87	2867.70 (4/1)	1523.43 (1/10)
2nd Section (4/1/68)	3079.06	3107.53	3108.21	3140.58	4477.16 (16/7)	2859.49 (1/10)
MALAYSIA						
KLSE Composite (4/4/86)	477.69	476.74	471.34	471.67	632.22 (1/8)	459.08 (28/9)
NETHERLANDS						
CBS Tu.Rtn.Gen.(End 1983)	229.2	227.4	226.1	226.9	271.9 (20/7)	225.6 (8/11)
CBS All Shr (End 1983)	168.0	166.7	165.7	166.3	206.3 (3/1)	165.6 (8/11)
NORWAY						
Oslo SE (Ind) (2/1/83)	667.15	666.56	678.75	688.75	915.13 (2/8)	666.56 (19/11)
PHILIPPINES						
Manila Comp (2/1/85)	677.30	651.63	645.82	647.54	1160.70 (21/3)	514.80 (5/10)
SINGAPORE						
SES All-Singapore (2/4/75)	312.26	312.56	310.23	310.77	446.87 (16/7)	301.45 (11/10)
SOUTH AFRICA						
JSE Gold (29/9/78)	1274.0	1264.0	1259.0	1254.0	2230.0 (16/1)	1254.0 (15/11)
JSE Industrial (28/9/78)	2777.0	2749.0	2725.0	2719.0	3211.0 (6/2)	2640.0 (1/10)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	674.25	680.04	697.46	701.45	928.82 (4/1)	566.27 (17/9)
SPAIN						
Madrid SE (30/12/85)	232.62	233.45	231.64	231.20	309.74 (16/7)	209.37 (28/9)
SWEDEN						
Affärsvärlden Gen. (1/2/37)	855.9	859.0	866.3	862.8	1329.9 (5/7)	850.2 (9/11)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	634.6	637.2	633.0	641.7	845.5 (13/7)	613.4 (28/9)
SBC General (1/4/87)	524.0	525.6	519.8	523.9	698.2 (13/7)	512.4 (28/9)
TAIWAN**						
Weighted Price (30/6/66)	4277.95	4250.88	3845.82	3962.85	12495.34 (10/2)	2560.47 (1/10)
THAILAND						
Bangkok SET (30/4/75)	652.72	658.25	656.91	655.84	1143.78 (25/7)	613.95 (25/9)
WORLD						
M.S. Capital Intl (1/1/70) ($)	463.2*	465.3	459.2	460.3	571.0 (4/1)	423.1 (28/9)

**Saturday November 17: Taiwan Weighted Price: 4073.74 Korea Comp Ex. 691.98
‡ Subject to official recalculation. *Calculated at 15.00 GMT.
Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO – Most Active Stocks
Tuesday 20 November 1990

	Stocks Traded	Closing Prices	Change on day
Honshu Paper	7.5m	2,480	-310
Howa Mchnry	6.5m	1,090	-100
Kyosan Elec	4.4m	1,540	-20
N'matsu Cnstrn	3.2m	1,300	-50
M'afata Wks	2.8m	1,540	0
Raito Kogyo	2.6m	2,800	-50
Fujikura	2.8m	768	-35
Kobe Steel	2.5m	475	-14
Hitachi	2.4m	1,090	-30
M'bishi Heavy	2.4m	653	-10

3pm prices November 20

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		- A - A - A -								
37⅛	9½	AAR	.48	4.1	7	996	11⅝	11½	11⅝	+ ⅛
9¾	7¾	ACM G	1.01	12.		196	8⅝	8½	8½	
11⅛	8¾	ACMIn	1.26	13.		1605	10	9¾	9⅞	+ ⅛
9¼	6½	ACM M	n1.01	14.		665	7½	7¼	7⅜	+ ⅛
12⅛	10	ACMMM	1.50	13.		384	11¾	11⅝	11⅝	
11½	8⅝	ACM Sc	1.26	13.		970	9¾	9⅝	9⅝	
9⅛	7¾	ACMSp	1.01	12.		724	8¼	8⅛	8¼	
24⅜	15⅞	AL Lab	.16	.7	18	335	21⅝	21	21½	+ ¼
5½	1	AM Intl				844	1½	1⅜	1⅜	- ⅛
20¾	4⅞	AM In pf	2	31.		53	7⅛	6½	6½	- ½
70¼	39¾	AMR			14	3090	47¾	47	47¼	- ⅝
26½	25	ANR pf	2.67	10.		3	25⅝	25⅝	25⅝	
24⅜	22¼	ANR pf	2.12	9.3		5	22¾	22¾	22¾	- ⅛
4	1⅜	ARX				386	1⅝	1½	1⅝	
72¼	39¼	ASA	3	7.5		604	40⅝	40	40⅛	- ⅜
45⅝	31¼	AbtLab	s.84	2.0	20	4311	42⅝	42¼	42⅜	+ ⅛
14	10⅞	Abitibi	g .50			17	11⅛	11⅛	11⅛	
11⅝	4⅝	AcmeC	.40	7.5	12	9	5¼	5¼	5¼	
32¾	18⅞	Acuson	s		18	1957	24	23	23⅞	+ ⅜
18⅞	14⅛	AdaEx	1.72e	12.		101	14¾	14⅝	14⅝	- ¼
15⅝	10⅛	Adobe				78	11⅛	11	11	- ⅛
20¼	15½	Adob pf	1.84	11.		116	16⅞	16⅝	16⅝	- ⅞
21⅝	19¼	Adob pf	2.40	12.		3	20¼	20¼	20¼	- ⅛
11⅝	3⅝	AMD				2152	4¼	4	4⅛	
32⅝	13	AMD pf	3	19.		6	15½	15½	15½	
9¼	1⅝	Advest	.16	7.5		193	2⅛	2⅛	2⅛	- ⅛
62	29	AetnLf	2.76	7.5	9	4563	37⅜	36⅝	37	- ⅛
12½	6¼	AlfPb	.24	3.4		869	7	6⅞	7	
22½	10⅝	Ahmans	.88	6.7	5	4844	13⅝	12⅝	13⅛	- ⅛
		Ahmn wt				28	13½	13	13	
3⅝	1⅞	Aileen			8	127	3⅛	3	3⅛	
61	42⅞	AirPrd	1.44	2.8	12	1106	51¼	51	51	- ⅛
27	13½	AirFrt	s .30	1.8	8	328	17½	16⅞	16⅞	- ⅝
24½	11¼	Airgas			16	105	12⅞	12¾	12¾	+ ¼
20¾	13¼	Airlease	2.62	17.	7	12	15¼	14¾	14⅞	- ¼
10⅛	9	AlaP	dpf.87	9.1		10	9⅝	9½	9⅝	
98½	90	AlaP pf	9	9.4		z350	96½	96	96	- ⅛
92¼	84	AlaP pf	8.16	9.2		z210	89	89	89	+ ⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 47

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
19	8¾	RhP pfA1.60e	15.			37	10⅝	10⅜	10½	− ⅛
3½	½	RhnP wt				84	9-16	½	9-16	− 1-16
22	9¾	RhnPl pl1.40e	14.			498	11⅛	10¾	11⅛	+ ⅛
38¾	29½	RiteAid	.90	2.6	14	780	35⅞	34¾	34⅞	−1
11-32	3-64	RvrOak				255	9-128	d5-128	5-128	− 1-32
18¼	8¼	RbtH			9	30	9⅞	9⅝	9⅞	+ ⅛
5½	4½	RbtCa wt				36	4⅝	4½	4½	
22⅛	15⅞	RochG	1.56	8.2	10	96	19⅛	19	19	
43½	24⅝	RochTl	1.46	5.1	17	47	28⅞	28	28⅞	+ ⅛
21½	15¾	RckCtr	1.88	11.	17	519	18⅛	17⅝	17⅞	− ⅛
28¾	19¾	Rockwl	.88	3.3	10	2944	26⅞	26¼	26¼	− ⅞
7⅞	3¾	RodRen			18	27	3¾	d 3⅝	3⅝	− ¼
35⅞	24¼	RohmH	1.24	4.2	10	698	30	29¾	29⅞	
26⅛	11½	Rohr				1088	14⅛	13½	13¾	− ⅜
15¼	7⅛	RollnE	.09	1.2	17	2889	7⅞	7½	7⅝	
20⅛	16⅜	Rollins	.58	3.2	16	92	17⅝	17⅛	17⅞	
9¼	5¼	RolLea	.20	3.0	7	25	6¾	6⅝	6⅝	− ⅛
15⅞	8⅝	Rowan				2682	11	10⅝	10⅞	+ ⅛
25¾	19⅞	RBSct pr2.95e	13.			268	22	21⅞	22	+ ¼
87	66⅛	RdylD	4.25e	5.5	12	4776	77¼	76⅝	76⅞	− ⅜
9⅞	7	Royce	.52r	7.1		747	7⅞	7⅜	7⅜	
45	31	Rubmd	.60	1.8	22	1989	39⅛	38⅝	38⅞	− ⅛
18½	13⅜	RussBr	.60a	3.9	13	4	15⅜	15¼	15¼	
11⅞	5⅛	RussTg	.20	3.9		499	5⅛	d 5	5⅛	
31	16	Russell	.32	1.6	13	511	20⅛	19⅞	20½	+ ¼
23⅛	12⅛	Ryder	.60	4.4	13	783	13⅝	13⅜	13½	− ⅛
25	14¼	Rykoff	.60	4.0	16	419	15	14⅞	14⅞	+ ⅛
22	9½	Ryland	.60	4.6	5	283	13	12	13	+1⅛
12⅞	3⅝	Rymer				1	5¼	5¼	5¼	

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
24¼	13¾	Wynns	.60	4.1	9	19	14⅝	14⅝	14½	
		− X−Y−Z −								
60⅛	29	Xerox	3	8.8	6	2846	34⅞	33⅞	34	− ⅛
49	43½	Xerox pf4.13		9.3		75	44⅜	44½	44½	−1½
32⅞	13¾	XTRA	.72	5.4		185	13½	d13	13⅜	− ⅛
25	12⅝	XTRA pf1.94		16.		32	13	12¾	12¾	− ¼
4	⅝	Zapata				163	11-16	⅝	⅝	
13¾	4	ZenithE				480	6⅛	6⅛	6⅛	
19⅞	9⅞	ZenNtl	.88	8.6	7	21	10⅜	10¼	10⅜	+ ⅛
7⅞	4½	Zeniz	.93	20.		450	4⅜	4⅝	4⅝	− ⅛
17⅛	9⅞	Zero	.40	3.7	11	67	11	10⅞	10⅞	− ⅛
51⅞	28⅝	Zurnin	.88	2.6	15	69	33⅞	33⅛	33⅛	− ⅝
12⅝	10⅛	Zweig	1.16a	11.		124	10⅞	10⅜	10⅜	− ⅛
10	7⅞	ZweigTl	.84	9.6		1759	8¾	8⅝	8¾	+ ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3pm prices November 20

NASDAQ NATIONAL MARKET

3pm prices November 20

Stock	Div.	P/E	Sales 100s	High	Low	Last	Chng
WlNclub		25	547	20⅛	20	20	− ⅛
Wicat		22	850	3⅛	3	3 1-16	
Willamt	1.60a	5	118	38½	38	38	− ¼
WmSon s		16	262	17	16⅞	16⅞	− ⅛
WilmTr	1.44	9	30	34½	34½	34½	− ¼
WiserO	.40a	29	2	18	18	18	
Wolohn	.28b	7	111	13½	12¾	13⅛	+ ⅛
WlvExp			1856	5	d 4¾	5	+ ½
WlvEx pf			604	13¾	11½	13⅝	+1⅝
Worthg	.60	16	930	20½	19½	19⅝	− ⅝
Wyman	.80		164	7½	7	7½	
		−X−Y−Z−					
XL Dta		5	744	8	7¾	7¾	− ¼
XOMA			459	17¼	16⅞	16⅞	− ¼
Xilinx			528	13¾	13¼	13⅜	− ⅛
YanEnS	1.52	17	14	21	20	21	
YelowF	.94	27	258	24¼	24	24	
YorkRe		11	326	9⅝	8⅞	9¼	
Zeos		17	70	15¼	14⅛	15	− ⅛
ZionBc	1.44	7	50	29	28½	28¾	− ½

FINANCIAL TIMES

Wednesday November 21 1990

AMERICA

Blue chips fall after recent steady advance

Wall Street

A COMBINATION of profit-taking on blue chip issues and arbitrage-related programme selling of stock index futures sent equity prices lower yesterday morning, *writes Patrick Harverson in New York.*

At 1.30 pm the Dow Jones Industrial Average was down 18.32 at 2,547.03 in steady trading. The Standard & Poor's 500 was also weaker, down 2.75 at 316.59, with the American SE Composite index faring better, just 0.66 easier at 295.81.

The morning's decline on the Big Board was primarily due to technical factors in the market, said analysts, and the belief that equities were due for a modest correction after the steady advances of the past fortnight.

Sentiment towards the Gulf did not change yesterday, and oil prices were lower at midday, with December crude oil down 97 cents at $29.75 a barrel on the New York Mercantile Exchange.

The bigger-than-expected fall in housing starts in October announced earlier in the morning did not contribute to the selling pressure.

Boeing was the morning's most actively traded stock, dropping $3 to $44¼ on turnover of 1.7m shares after a broker removed the stock from her "buy" list. The analyst, from the securities house Goldman Sachs, cited disappointing margins, concern about the effect of the Boeing 777 development programme on earnings, and weakening demand for international travel as reasons for the downgrade.

Eli Lilly fell $1⅛ to $67⅛ on the publication of the latest monthly data on the company's anti-depressant drug, Prozac.

The drug has been the subject of recent bad publicity after allegations of potentially harmful side effects, and the latest figures showed Prozac's share of the new prescription market had fallen in October. However, analysts were divided over the significance of the figures, and some believed the outlook for Eli Lilly and Prozac remained positive.

Colgate-Palmolive bucked the trend with a rise of $⅜ to $67⅛ after the company released bullish projections for earnings stretching to 1995. Gundle Environmental Services also posted a rise, up $1⅛ at $10⅛, after a broker's recommendation prompted a rush of demand, and an order imbalance.

The American Depositary Receipts of WPP, the UK advertising group, lost more than half their value in hectic trading after some savage downgrades from US brokers and severe warnings of declining earnings. WPP ADRs moved down $6⅛ to $5¼ on turnover of nearly 500,000 shares.

Koger Properties fell $¾ to $6 on the resignation of the company president and the news that the Securities and Exchange Commission was investing alleged insider trading in Koger stock.

American Cyanamid fell $⅝ to $49⅛ after entering a guilty plea and paying a $¼m fine for the unauthorised construction of a power plant in New York State. The fine was the largest criminal penalty ever imposed for a violation of state air quality regulations.

Canada

TORONTO stocks dropped in listless trade as investors took profits and waited for a trend to emerge. Investors were also waiting for a drop in US prime rates after the Fed easing last Friday.

The composite index lost 16.5 to 3,116.5 on volume of 11.09m shares. Declines led advances by 252 to 166.

Standard TrustCo jumped 65 cents to C$3 on volume of 14,000 shares. The Canadian bond rating service said it suspended ratings on the company's short and long-term deposits, preferred shares, short-term notes and debentures.

CP Forest gained C$⅛ to C$28. The company said late on Monday that it had placed $92m of 20-year senior notes with institutional investors in the US.

Tel Aviv holds its nerve amid fear of war

The stock market is clinging to a mood of cautious recovery, writes Hugh Carnegy

LIKE SO many of its counterparts elsewhere, the Tel Aviv stock market has suffered from a spell of nervous uncertainty since the Gulf crisis erupted in early August. This is hardly surprising, noted a wry local commentator recently, given that it is about the only stock exchange actually within range of Iraqi missiles.

With general fears of the international consequences of war thus exacerbated by the direct threat of an attack on Israel, the early days of the crisis saw some precipitous market slides, in which the main indices lost as much 10 per cent in a day. As time has gone by, however, the alarm has been replaced by a mood of cautious recovery, but typified by low trading volumes.

The general index has recovered to about 210 this week from a low of 204 on August 23. This compares with a peak of 272 on August 1 – about 23 per cent higher than the current level. Trade in bonds, which is dominated by government issues and accounts for the bulk of turnover on the Tel Aviv Stock Exchange (TASE), has also fluctuated, with the general bond index showing almost no real increase in value over the year.

The prospect of war in the Gulf is not the only shadow looming over the market. Domestically, there is also the issue of massive immigration by Soviet Jews into Israel which is certain to lead to great increases in the government's borrowing requirements and may fuel inflation, already running at an annual rate of close to 20 per cent.

However, the outlook is not necessarily gloomy. There are a number of underlying factors at work which suggest the recent trend of expansion may resume.

The Gulf shock interrupted a remarkable bull run on the share market which saw share values rise by about 140 per cent from the start of 1989 until the end of July this year. This reflected some strong corporate performances – in spite of a generally stagnant economy – but also a lot of pent-up demand.

Investors may be worried now that companies may be hit by higher energy prices and sluggish markets overseas. However, the economy should benefit from the kick-start that immigration has already given domestic demand. The market is also encouraged by a steady, if slow, pattern of reform in capital markets which has allowed the private sector much greater freedom to tap the bond market, and enabled institutional investors, such as providential and pension funds, to invest in equities.

The stock exchange is also hoping that the government, under severe pressure to raise funds for immigration absorption, will at last speed up its privatisation programme covering leading state-owned enterprises

Mr Rami Tamari, the TASE head of trading, says that the private sector share of the Shk40bn ($20bn) bond market is now up to about 20 per cent from insignificant levels five years ago. The government has also moved away from its previously heavy reliance on fixed-rate issues which institutions were obliged to take up.

The stock exchange is also hoping that the government, under severe pressure to raise funds for immigration absorption, will at last speed up its privatisation programme covering leading state-owned enterprises, such as Israeli Chemicals and Israel Electric Corp, as well as the top banks, most of whose stock the state controls.

In September, in a groundbreaking issue, an effective 6 per cent stake in Bezeq, the telecommunications utility, was successfully floated on to an otherwise depressed market. At more than Shk150m, it was the biggest flotation ever handled by the TASE.

"The success of the Bezeq issue shows we can cope," says Mr Tamari, "because the institutional investors, the mutual funds, the big clients want good companies and are willing to invest. I also hope that the government will issue bank shares and not just offer them to private investors."

However, the market is unlikely to take off again until the war clouds clear. Even then, any enthusiasm could be heavily dampened by a renewed inflationary surge, and by a government decision to turn to the local market for significant amounts of the huge funds it now requires to finance – estimates run as high as $50bn over the next few years.

EUROPE

Approaching holiday keeps Frankfurt quiet

BOURSES finished little changed yesterday, with few items of corporate or international news to enliven trading, *writes Our Markets Staff.*

FRANKFURT held Monday's gains in turnover trimmed by the approach of today's holiday in Germany, and Thanksgiving holidays on Thursday and Friday in the US and Japan respectively.

The FAZ and DAX indices fell by just 0.36 to 633.04, and 0.17 to 1,467.30 respectively, in volume declining from DM6.2bn to DM4.7bn. Mr Hans von Haza at Dresdner Bank, however, said that he would not have been surprised if shares had lost about one half of the previous day's gains; there also seemed to be a feeling, which he did not necessarily share, that the rally would continue after the holiday.

Early morning buying in financials formed the base for yesterday's market stability. Dresdner closed DM3 higher at DM368.50 while most of the other banks slipped back again; Dresdner is due to make a progress report tomorrow week, and recent 1990 indications from Deutsche Bank and Commerzbank have been encouraging.

Elsewhere, Karstadt and Kaufhof returned to favour on Karstadt's indication of higher profits, rising by DM4 to DM683, and DM9 to DM559; but the likelihood of a lower dividend left Continental DM6.50 lower at DM205.50.

PARIS ended virtually unchanged after fluctuating within a 22-point range throughout the session, before the end of the current trading account tomorrow. The CAC 40 index closed at 1,633.15, down 0.50, in turnover similar to Monday's at about FFr1.7bn.

There was some relief at the survival of Prime Minister Michel Rocard following the narrow defeat of a no-confidence vote on Monday night. But his position remains weak, said one dealer, so investors were still nervous about the political situation.

Among the few features was CGE, which slipped FFr4 to FFr550 in volume of 394,100 shares, including a block trade of 200,000. Elf Aquitaine's share price, up FFr3 to FFr633 with 98,800 traded, failed to respond to reports that it had discovered oil offshore in Nigeria. The company refused to comment on the reports.

Suez eased FFr2 to FFr310.80; insurer Axa Midi, up FFr1 at FFr220, said that it had raised its stake in Suez from 1 per cent to 3 per cent.

AMSTERDAM closed near the day's highs in volume estimated at about Fl 450m. The CBS Tendency index rose 0.6 to 97.6.

Philips advanced 70 cents to Fl 20 following the news late on Monday that the group now expects a net loss of Fl 4bn for 1990 but is anticipating a return to profitability in 1991.

Royal Dutch recovered from its recent weakness to close Fl 2.40 better at Fl 128.40.

OSLO dropped to yet another 1990 low on fears of a possible war in the Gulf. The all-share index fell 3.00 to 459.99.

Towards the close of trading, news emerged from the United States that Molecular Biosystems was to file for US approval of Albunex, an ultrasound contrast media agent. Mr Andrew Porter of Nikko Securities said this would benefit Hafslund Nycomed, which has the European rights to the product, although there were apparently some concerns over the product's safety to be addressed.

STOCKHOLM fell for the second day in succession, the Affärsvärlden General index shedding 3.1 to 855.9 although turnover rose from SKr123m to SKr150m.

There was some disappointment with the interim report from Atlas Copco, the industrial equipment company, which said after hours on Monday that pre-tax profits were 9 per cent up for the first nine months of this year – against market expectations in the 14 per cent area. Atlas Copco A shares fell SKr12 to SKr160.

Meanwhile, Volvo B shares hit a 1990 low of SKr196, down SKr9, after last week's nine-month pre-tax loss of SKr198m.

HELSINKI stood out in Scandinavia, with a rise as foreign investors picked up free shares. The Unitas all-share index rose 0.9 to 410.2 in turnover of FM57.6m, with free shares accounting for FM11m.

ZURICH declined in slack trading, the Crédit Suisse index closing 3.2 lower at 468.4. Most leading stocks edged downwards, although Sandoz held steady and Sulzer registered shares managed a SFr50 rise to SFr4,350.

MADRID slipped on profit-taking, with the general index closing 0.97 down at 232.48, little changed from the end of the morning session. Turnover was light.

Banco Comercial Espanol, a subsidiary of Banco de Santander, was suspended from trading temporarily after the Spanish national securities commission received the formal takeover bid from Crédit Lyonnais of France.

BRUSSELS was mixed to firmer as the new two-week forward market trading account began quietly. The cash market index gained 38.83 to 5,121.11.

Demand for utilities was strong before the listing next month of Electrabel, the company formed by the merger of Intercom, Ebes and Unerg.

ATHENS fell back after the previous day's 8 per cent advance. The general index lost 19.11 or 2.2 per cent to 865.15. **ISTANBUL**, which was also stronger on Monday, eased 59.84 or 1.5 per cent to 3,815.14 in turnover of TL82.7bn, down from the previous day's active TL97bn.

Trading in **MILAN** was blocked for a third day by a floor traders' strike. Italian shares traded on London's automated screen system drifted slightly higher in marginal volume.

Ferruzzi group shares remained suspended. Two Enimont shareholders' meetings to determine the future ownership of the chemical companies have been postponed from today until Monday.

ASIA PACIFIC

Turnover slumps after money supply figures

Tokyo

TRADING was marked by particularly low volume yesterday as fears of renewed tensions in the Gulf, prompted by news of Iraqi troop movements, cast a shadow over the market, *writes Emiko Terazono in Tokyo.*

Turnover fell from 300m shares to only 210m, its second lowest of the year, as heavy selling in the futures markets drove down the Nikkei average to close at 23,205.48, a fall of 312.68 and only a whisker above its day's low of 23,202.81; its high was 23,478.67.

Declines led advances by 736 to 196 with 156 unchanged. The Topix index of all first section stocks declined 20.27 to 1,719.79 but, in London, the ISE/Nikkei 50 index advanced 2.19 to 1,290.38.

The market's weakness was compounded by the release of money supply figures indicating monetary growth in October of 11.8 per cent, prompting a Bank of Japan official to comment that this was excessive. The growth rate, and the central bank's interpretation, indicated that the bank is unlikely to lower official interest rates, ending market talk that an easing was imminent.

Margin account settlements continued to loom over the market, contributing to the lack of volume. Mr Mitsuru Maekawa at Jardine Fleming Securities said that Y2.8bn worth of margin accounts are expected to expire on Thursday. "We know that a lot of the Y2.8bn has already been sold, and do not expect the whole amount to be released into the market, but the thought of it is enough to depress equities," he said.

Leading electricals and other big companies lost most of Monday's gains. Kobe Steel fell Y14 to Y475, Mitsubishi Heavy Industries Y10 to Y653, Hitachi Y30 to Y1,090 and Toshiba Y10 to Y700.

Shipbuilders also lost ground following a report that October ship orders had fallen by 51 per cent compared with the same month last year. Hitachi Zosen was down Y31 at Y451, Sasebo Heavy Industries fell Y31 to Y650, and Ishikawajima-Harima Heavy Industries (IHI) lost Y31 to Y648.

Short-term special situations lost out as Chiyoda, the plant engineer with construction projects in the Middle East, lost Y60 to Y1620 as tensions rose again in the Gulf.

Fujikura, a leading electric wires and cables maker which had risen on the news that it was increasing investment in optical fibre business, also fell Y30 to Y766 in spite of an estimated 18 per cent increase in pre-tax profits for the full year.

Osaka fell in higher volume of 70.2m shares against 59m, the OSE average closing 132.80 lower at 26,812.84. Chugai Ro, the most actively traded issue, fell Y30 to Y1,160 after gaining Y70 on Monday. Investors were worried that the issue had a high level of outstanding long margin positions.

Nintendo fell Y500 to Y24,300 on a possible fall in US sales. Mitsumi, promoted on its component sales to Nintendo, also fell Y40 to Y1,450.

Roundup

DOMESTIC NEWS helped some regional markets to strengthen yesterday, but the Gulf crisis continued to keep most investors cautious.

AUSTRALIA reacted to a revised wage and tax deal, regarded as good news for inflation and company earnings, with its biggest daily gain in two weeks. The market was also encouraged by the prospect of lower interest rates. The All Ordinaries index rose 17.5 to 1,365.5 as turnover swelled to A$181m from Monday's A$138m.

The Australian Council of Trade Unions and the federal government agreed to replace the first stage of the Accord Mark VI pay rise with an extra tax cut from January 1. In addition, Mr Paul Keating, treasurer, said that the government would consider a further cut in interest rates before the year's end.

Interest rate hopes lifted bank stocks, while News Corp jumped 34 cents to A$6.06. Adsteam group shares rose on the news that Nat Con would sell its 19.2 per cent stake in David Jones, which gained 11 cents to A$1.45, while Adsteam rose 11 cents to 76 cents.

MANILA's rally on the back of Philippine National Bank (PNB) and Philippine Long Distance Telephone (PLDT) continued, with the composite index gaining 25.67 or 3.9 per cent to 677.30. PLDT rose 17.50 pesos and PNB gained 7.50 pesos, both closing at 285.

Expectations of an oil find at West Linapacan and hopes of peace in the Gulf also boosted the market. Turnover on the two Philippine bourses grew to 117m pesos from 75m.

HONG KONG eased in moderately light trading; the Hang Seng index fell 10.66 to 3,031.92 in turnover of HK$827.7m, similar to Monday's HK$823.4m. Concern about the Middle East kept investors away.

TAIWAN fluctuated in busy trading, ending slightly higher. The weighted index rose 27.07 to 4,277.95 in turnover of T$69.8bn, down from T$84.5bn.

BANGKOK closed lower, after heavy selling in the last 10 minutes of trading on rumours – denied by the government – of a snap general election. The SET index lost 5.53 to 652.72.

SOUTH AFRICA

MODEST demand for a limited supply of quality scrip lifted Johannesburg, with gold shares also supported by a mild recovery in bullion prices. The JSE all-gold index rose 10 to 1,274 and the all-share index put on 19 to 2,609.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY NOVEMBER 19 1990								FRIDAY NOVEMBER 16 1990					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1990 High	1990 Low	Year ago (approx)
Australia (76)	122.74	−0.5	92.35	100.09	94.06	106.99	+0.8	7.41	123.31	92.99	100.86	94.27	106.33	158.31	118.98	146.89
Austria (19)	202.60	+1.8	152.43	165.21	155.26	154.50	+1.7	1.77	199.04	150.10	162.81	152.17	151.97	285.63	178.57	145.46
Belgium (61)	138.74	+0.2	104.39	113.13	106.32	103.84	+0.2	5.58	138.42	104.39	113.21	105.82	103.60	160.02	126.67	142.61
Canada (120)	125.34	+0.2	94.30	102.20	96.04	105.51	+0.1	3.81	125.09	94.33	102.31	95.62	105.39	153.61	121.24	149.00
Denmark (33)	256.10	+0.3	192.69	208.84	196.26	196.98	+0.5	1.51	255.38	192.58	208.89	195.24	195.98	277.62	234.05	225.23
Finland (25)	105.75	+1.3	79.57	86.24	81.04	78.38	+0.7	3.89	104.44	78.76	85.43	79.85	77.80	152.29	98.91	119.94
France (122)	141.39	+0.8	106.38	115.28	108.34	110.34	+1.0	3.75	140.27	105.78	114.72	107.23	109.30	168.85	124.98	133.27
Germany (91)	*119.44*	*+1.8*	*89.87*	*97.41*	*91.53*	*91.53*	*+2.0*	*2.48*	*117.38*	*88.52*	*96.02*	*89.73*	*89.73*	*144.63*	*101.38*	*99.35*
Hong Kong (48)	123.78	+1.1	93.13	100.93	94.86	123.84	+1.1	5.34	122.39	92.29	100.11	93.57	122.46	147.49	112.24	119.30
Ireland (17)	153.02	+1.0	115.13	124.77	117.26	118.21	+1.0	4.42	151.43	114.20	123.87	115.77	116.98	198.57	139.04	159.24
Italy (91)	79.66	−0.1	59.93	64.95	61.04	66.06	+0.0	3.72	79.73	60.12	65.21	60.95	66.06	109.26	79.41	89.33
Japan (454)	128.19	+1.7	96.45	104.53	98.25	104.53	+1.4	0.82	126.07	95.07	103.12	96.39	103.12	197.26	106.58	186.03
Malaysia (35)	195.59	+1.4	147.16	159.48	149.88	202.79	+1.3	3.10	192.91	145.47	157.78	147.47	200.26	250.89	182.96	196.31
Mexico (12)	552.94	+0.3	416.02	450.88	423.73	1777.39	+0.3	0.39	551.15	415.64	450.82	421.36	1771.65	561.41	324.53	287.89
Netherland (41)	134.19	+0.5	100.96	109.42	102.84	101.82	+0.7	5.28	133.58	100.74	109.27	102.13	101.15	149.03	127.56	126.04
New Zealand (16)	*48.81*	*+1.9*	*36.72*	*39.80*	*37.41*	*42.51*	*+2.0*	*7.80*	*47.90*	*36.12*	*39.18*	*36.62*	*41.69*	*75.36*	*47.90*	*75.34*
Norway (27)	214.80	−2.1	161.61	175.16	164.61	168.08	−1.9	1.84	219.30	165.38	179.38	167.66	171.38	276.79	202.34	170.84
Singapore (25)	156.16	+1.0	117.49	127.34	119.67	122.95	+0.8	3.59	154.68	116.64	126.52	118.25	121.96	209.24	147.24	158.03
South Africa (60)	169.94	−3.8	127.88	138.57	130.23	131.04	+1.0	4.16	176.67	133.23	144.51	135.06	129.80	251.39	151.50	165.64
Spain (42)	150.52	+1.4	113.25	122.75	115.35	106.51	+1.1	5.22	148.48	111.97	121.46	113.52	105.40	182.25	128.54	152.23
Sweden (27)	166.32	+0.2	125.14	135.63	127.46	138.22	+0.1	2.98	166.01	125.19	135.79	126.92	138.02	234.93	158.07	165.59
Switzerland (68)	92.63	+1.4	69.70	75.54	71.00	71.60	+1.5	2.99	91.31	68.86	74.70	69.82	70.45	109.77	85.00	86.27
United Kingdom (298)	165.17	+1.6	124.27	134.67	126.56	124.27	+1.3	5.58	162.60	122.62	132.99	124.30	122.62	176.18	139.87	139.21
USA (533)	*128.84*	*+0.7*	*96.94*	*105.06*	*98.74*	*128.84*	*+0.7*	*3.83*	*127.98*	*96.51*	*104.69*	*97.84*	*127.98*	*146.95*	*119.06*	*137.88*
Europe (962)	138.37	+1.2	104.10	112.83	106.04	105.29	+1.2	4.40	136.68	103.07	111.80	104.50	104.04	157.85	124.91	123.81
Nordic (112)	179.13	+0.0	134.77	146.06	137.27	136.41	+0.0	2.22	179.19	135.13	146.57	136.99	136.35	223.29	172.38	166.77
Pacific Basin (654)	127.50	+1.6	95.93	103.97	97.71	104.91	+1.3	1.21	125.51	94.65	102.67	95.96	103.53	192.75	107.82	181.87
Euro–Pacific (1616)	132.28	+1.4	99.52	107.85	101.36	105.86	+1.3	2.58	130.41	98.34	106.66	99.69	104.52	174.18	116.03	158.72
North America (653)	128.54	+0.6	96.71	104.82	98.52	127.30	+0.6	3.83	127.71	96.31	104.48	97.65	126.48	148.43	119.26	138.44
Europe Ex. UK (664)	121.60	+1.0	91.49	99.18	93.21	94.03	+1.1	3.55	120.41	90.81	98.51	92.08	93.01	145.62	109.94	113.33
Pacific Ex. Japan (200)	*118.71*	*+0.4*	*89.31*	*96.81*	*90.98*	*106.37*	*+0.9*	*6.25*	*118.27*	*89.19*	*96.76*	*90.43*	*105.44*	*146.72*	*116.03*	*131.86*
World Ex. US (1808)	132.65	+1.3	99.81	108.18	101.68	106.53	+1.2	2.63	130.92	98.73	107.09	100.09	105.23	173.77	117.12	158.53
World Ex. UK (2043)	126.89	+1.0	95.47	103.48	97.25	112.38	+1.0	2.71	125.58	94.70	102.73	96.02	111.26	162.00	115.37	151.20
World Ex. So. Af. (2281)	130.05	+1.1	97.85	106.05	99.67	113.42	+1.0	3.03	128.58	96.96	105.18	98.31	112.25	161.84	118.04	150.01
World Ex. Japan (1887)	132.67	+0.8	99.82	108.19	101.89	118.33	+0.9	4.15	131.60	99.24	107.55	100.62	117.30	151.59	124.31	133.08
The World Index (2341)	130.29	+1.1	98.03	106.24	99.85	113.55	+1.0	3.04	128.87	97.18	105.41	98.53	112.38	162.05	118.33	150.11

Italy: Prices were not updated 19/11. Latest prices were not available for this edition.

JPMorgan

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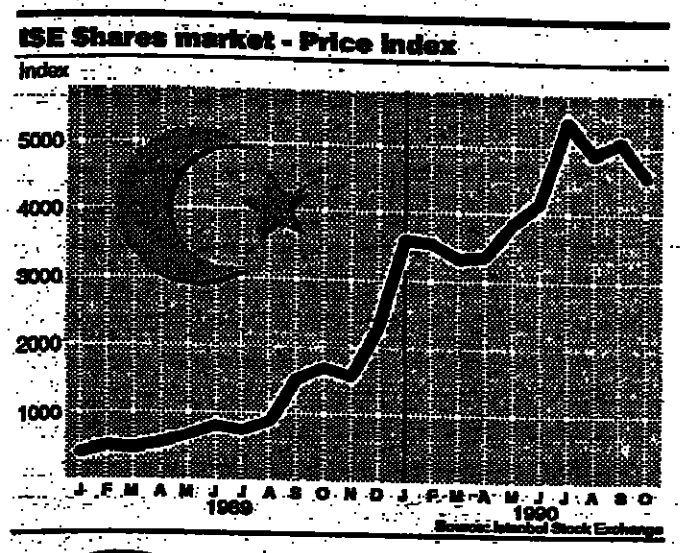
TURKISH FINANCE AND INDUSTRY

Wednesday November 21 1990

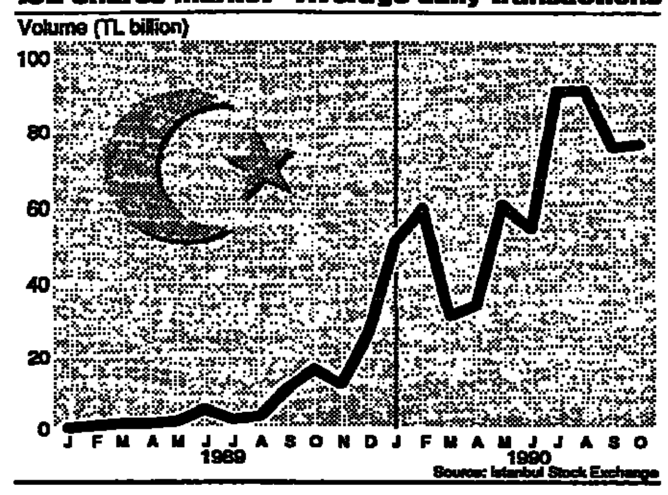
ISE Shares market - Price index



The Gulf crisis has finally caught up with the Istanbul Stock Exchange

Terry Kirk

ISE Shares market - Average daily transactions



Turkey is paying a high price for its support of the UN embargo against Iraq. Although business is putting a brave face on it, for President Turgut Ozal the Gulf crisis represents the greatest challenge to his economic reforms, as John Murray Brown reports

Winter of uncertainty

THE TURKISH winter could prove unusually severe this year amid growing political and economic uncertainty over the outcome of the Gulf crisis.

Business is putting a brave face on it, but it is clear that some expansion plans have been shelved. Foreign investors are looking elsewhere to locate their plant. This month, in one of its fluctuations over the likelihood of war, the Istanbul stock exchange has dipped to below 4,000. Officials estimate the United Nations embargo against Iraq will cost the Turkish economy anywhere between $2bn and $9bn.

Service receipts, from transport and tourism, have been badly hit.

Turkey has foregone as much as $600m in royalties by closing the pipeline taking Iraqi oil to the Mediterranean.

But at this stage the figures are little better than guesswork, given the volatility in oil prices, an open-ended defence budget and the likely knock-on effect of higher inflation on growth in the economy.

For President Turgut Ozal, who became leader last November after six years as prime minister, it represents his greatest challenge, not only for the success of his economic reforms, but for the survival of the ruling Motherland Party (ANAP), which he helped to found.

Many Turks are still suffering from the spending binge which saw ANAP win the 1987 election.

With elections due before the end of 1992, ANAP may hope to use the Gulf to distract attention from the country's real problems – the failure to tackle sustained high inflation, its perceived ambivalence on the issue of Islamic extremism and the incompetence in dealing with a surge in political violence.

An added unknown is the likely political fallout from the collapse of Polly Peck, the UK based fruit-to-electronics group, and the financial scandal now surrounding its founder, Mr Asil Nadir, a close friend of the president.

Support for UN sanctions has again underlined Turkey's vital importance to the western alliance.

With Turkey's application to join the European Community officially shelved in December, President Ozal is using the crisis to reinvoke Turkey's claim for a modern western identity.

The economic dividends of the Gulf crisis are less certain. Aid has arrived from Kuwait's Emir. Japan has agreed new concessionary credits. The World Bank has approved a long delayed structural adjustment credit.

But a major aid windfall might be difficult to absorb and merely fuel inflation. Mr Ozal has called on the west to provide Turkish products with greater market access.

President Ozal in fact now dominates the political scene in ways hardly imagined when he succeeded General Kenan Evren. Iraq is Turkey's second largest trading partner. Some businessmen believe the embargo overhasty.

Opposition figures complain Mr Ozal is overreaching his constitutional powers – a more serious charge in a country where the sense of legality runs deep.

But neutrality was never a serious option, given Turkey's strategic importance, its 57m population, and the fragility of its democratic institutions. Some polls suggest the crisis may even have enhanced Mr Ozal's slightly tarnished popularity.

As yet, little has rubbed on ANAP, whose claim to be the natural party of government looks increasingly less convincing.

ANAP has a safe 60 per cent parliamentary majority though this represents just 36 per cent of the popular vote. If resignations in October of both the defence and foreign ministers suggest that the cabinet may be divided, the opposition is more divided.

Much will depend on how well the economy fares. Even before the Gulf crisis, business was groping its way through an unfamiliar landscape, against a background of uneven growth, rising inflation and spiralling public deficits.

Industry is still digesting the full force of the Ozal reforms. The import regime has been dismantled forcing local producers for the first time to compete. Exporters are feeling their way into new markets. In line with efforts to harmonise standards with the EC, the currency is now fully convertible. Accounting standards are also under review, particularly the lack of consolidation in Turkish companies.

The economy has certainly changed since the days when Turkey's main export was its 'gastarbeiter', the workers sent to Germany and elsewhere who still account for remittances worth over $2bn in 1990.

But the dramatic export surge since the early 1980s was probably less the result of deep structural change than a coincidence of short term factors – industry's idle capacity, the competitive lira exchange rate and the raft of incentives offered to exporters.

In the financial sector, banking reform has helped spur the emergence of the Istanbul stock market, with the cosy relations between large firms and their banks under review. Some companies have used the stock market to raise new capital and restructure their balance sheets.

But business is still largely privately owned and dominated by large family owned conglomerates, with large captive home markets. Koc, for example, probably Turkey's leading trading house, still generates less than 5 per cent of turnover from exports.

Even entrepreneurs who have ventured into export markets rely on a narrow product range, particularly the labour-intensive areas of textiles and clothing.

Turkey's real transformation has been going on beyond the boardroom where a largely rural society is adjusting to the growing pains of development. Agriculture still contributes 17 per cent of GDP, employs about half of the labour force and provides roughly half the exports. But urban migration is creating horrendous strains for the already overstretched city infrastructures. Istanbul for example now suffers daily water shortages. Izmir, the country's third largest city with a population of 6m people, has no working sewage plant. It is in these areas, that Islamic sentiment is emerging as a focus for the disaffected.

It is among the urban waged labour that inflation is now most acute. Consumer prices are rising at a rate of 8 per cent a month. Good harvest prospects, coupled with recent import growth spurred by the strength of the lira, may help to dampen the rate. But sustained high inflation remains the overriding cause of Turkey's current ills.

It is already feeding through to the shopfloor. Organised labour is flexing its muscles after a decade of wage restraint (a key factor in maintaining the competitiveness of Turkish exports). Vital business sectors already face industrial lockout in defiance of the country's restrictive labour laws.

The problem is exacerbated by high foreign debt payments, currently around 20 per cent of the total budget. Turkey also has a narrow tax base, making it all the more difficult to maintain public services.

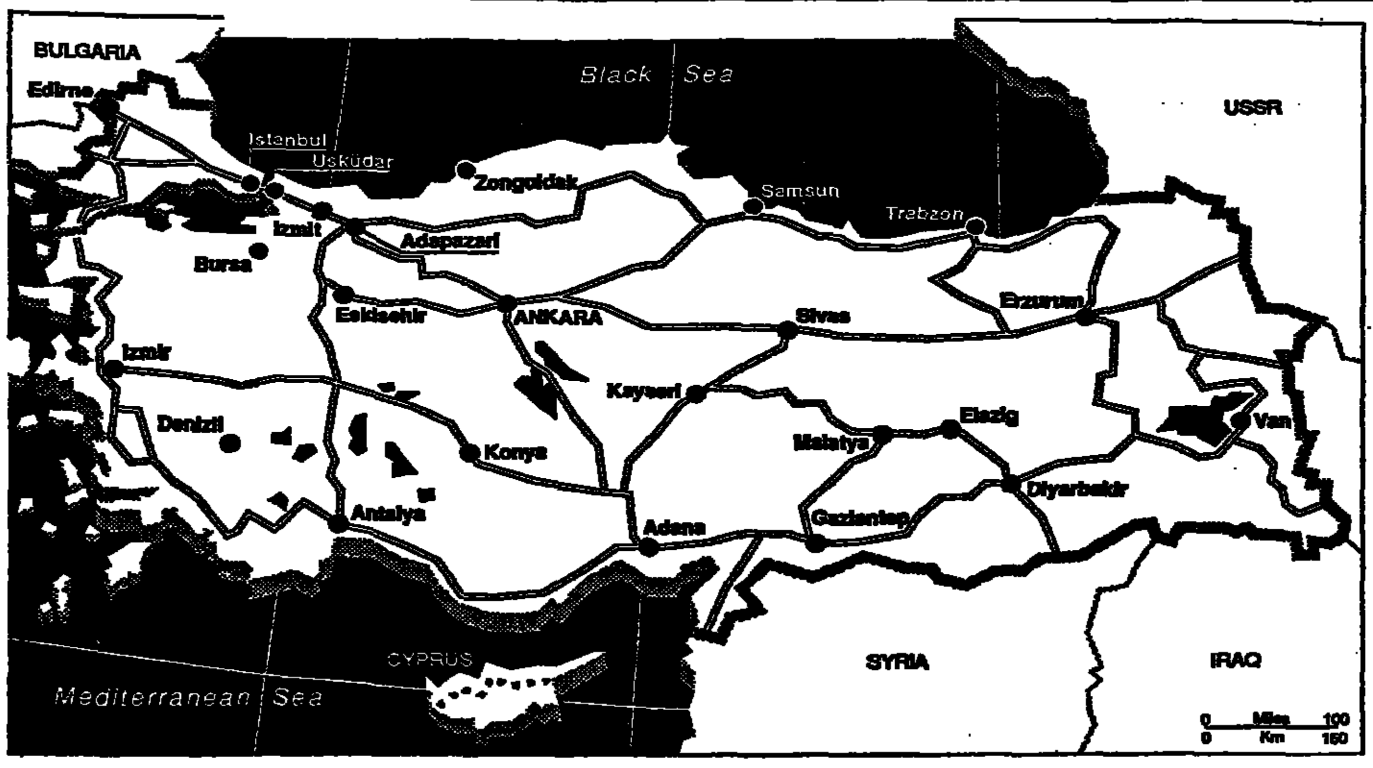
Public finances will be boosted by the proposed sale to the public of state assets. However, the programme has recently come unstuck through legal wrangles, and the stock exchange's meagre appetite for such sales. Privatisation has done little to improve the management of state companies.

In addition, the high real interest needed to finance the budget deficit, and fight inflation, is another burden when business is so dependent on bank loan finance. Budget pressure has already forced Mr Ozal to put a tighter rein on the spending of local administrations, so reversing one of the more enlightened reforms of his seven years in office.

Hard enough before the crisis, all these problems will be more difficult today, with the prospect of war in the Gulf casting its shadow over every sphere of Turkish life.

IN THIS SURVEY

Editorial Production: *Andrew Slade*



EUROPE

Community euphoria evaporates

UNDERSTANDING Turkey's current views on membership of the European Community is about as easy as reading the grounds at the bottom of a Turkish coffee cup.

Over the last year, the euphoria of the original application in 1987 has evaporated. Last December, the European Commission in Brussels politely but firmly shelved Turkey's application, arguing that it had first to address the concerns of the emerging democracies in eastern Europe. But many Turks believe this was a technical excuse for what is a more fundamental reservation over Turkish membership.

More was to follow. In July, the Greek Cypriots, without consulting the Turkish half of their divided island, applied for membership. In October, in a move likely to rub more salt into Turkish wounds, Greece looked set to block release of the Fourth Financial Protocol, an Ecu 600m aid package which has been suspended since Turkey's military coup in 1980. In November, in line with other EC countries, Greece was set to establish a 12 mile offshore fishing zone – another direct challenge to Turkey's interests in the Aegean, where Ankara insists on a 6-mile continental shelf.

The EC concerns are easy to imagine. Turkey's population is growing at almost 2.5 per cent per year and is set to be larger than all its European neighbours early in the next century. Turkey is still a poor state; at $1,300, per capita GDP is below that of any existing community member.

Under the Common Agricultural Policy, Turkey's relatively backward farm sector, which employs some 9m people, would be entitled to massive infusions of EC funds.

Moreover, with inflation running at over 8 per cent a month and rising, it is hard to envisage Turkey being able to commit itself to any common European monetary policy.

Lastly, there must be serious questions about any country which has suffered three military coups in the past 30 years. Turkey returned to multi-party democracy in 1983, but one political party, the Communist Party, is still banned. Many intellectuals, tried by military tribunal in the wake of the coup, still languish in prison for nothing more than expressing their political views. Moreover, torture still exists, according to human rights groups like the UK based Amnesty International.

President Turgut Ozal once appeared to stake his political future on EC membership. His strong stand in support of the UN embargo on Iraq has no doubt strengthened Turkey's European credentials. Yet his bets remain firmly hedged.

He now flirts with a possible trade deal with the US. Discussions are ongoing with the European Free Trade Association. There is even talk of a Black Sea economic zone.

But is this the behaviour of someone jilted, or just another measure of brinkmanship?

Ankara's relations with the EC date from the Association Agreement of 1963. This set out to create an "approximation in three stages of the parties' economic policies."


Terry Kirk

Ozal: hedging his bets

The agreement committed Turkey to liberalise trade and provided for a scheduled reduction of import tariffs, eventually leading to customs union. This required Turkey to adopt the uniform external tariff of the community.

According to Mr Temel Iskit, head of EC affairs at the Foreign Ministry, Turkey is making considerable sacrifices to enter the community, in terms of lost tax revenues, and the cost to Turkish industry from open competition with European products.

Over 40 per cent of Turkey's foreign trade is already with community countries. Besides most categories of Turkish industrial goods enter the EC duty free, and have done so for the past 17 years. Only agricultural trade remains protected. To many observers Turkey already enjoys all the benefits of customs union. Only in textiles, where Turkey is now the leading supplier to the European market, is there a voluntary agreement on exports.

After falling behind on the reform timetable, in 1989 Turkey embarked on widespread reductions in actual rates across the board, in a bid to force its industry to compete with foreign imports.

Such a bold move might have been expected to win a sympathetic hand in the European capitals promoting structural reform. But as the Brussels bureaucrats see it, the changes have merely provided concessions for all importers ignoring what, under the Association Agreement, is meant to be the community's preferential trade status.

The EC's other complaint is that import surcharges in some instances make effective tariff rates higher. In Brussels the view is that these additional levies, which go to support the Mass Housing and other extra budgetary funds, constitute an additional tax and are therefore in breach of the original association agreement. One EC official offered the example of sheet linen which after the recent cuts enters at the nominal rate of 30 per cent but, after all the special charges are included, actually incurs a rate of 54.7 per cent, too high for many European producers to even contemplate selling into the Turkish market.

With some justification, the Turks counter that Brussels has not followed the letter of the 1963 Agreement. The current quota on Turkish textiles, for example, is in clear breach of the free trade principles of the agreement. Another grumble exists over the question of the free movement of Turkish labour within the community, as stipulated in the original accord. Given the changes in eastern Europe, this is set to become an increasingly sensitive issue, particularly for Germany where Turkey has some two million 'guest workers'.

Some Turkish officials would contend that these are all arguments in favour of membership, not against it. Particularly on the political front, early entry is seen as the best way to support Turkey's still fragile democracy and counter what Brussels fears is the growing tide of Islamic sentiment in Turkey.

John Murray Brown

Jim Bodgener on alternatives to the EC

Black Sea initiatives

EVEN before the Gulf crisis, President Turgut Ozal had ardently expounded his vision of Turkey's dominant regional role in a Black Sea grouping by the year 2000. His message, clearly, was that Turkey had complementary alternatives to the EC and the west.

Relations with Iraq will never be the same again, Mr Ozal has admitted. Nor, say observers, can they be with other states in the Middle East, where Turkey's departure from 'active neutrality' in the region has raised the unwelcome imperial ghost of an Ottoman past.

Quite apart from the loss of lucrative Iraqi and Kuwaiti export markets, the crisis has hit other Gulf economies trading with Turkey. The government is even seeking to capitalise on Bahrain's resultant insecurity as a financial centre, with the introduction of legislation permitting offshore banking in Istanbul.

Through the extension of $400m in export credit through the Turkish Export Credit Bank (Eximbank) to Iran, the government hopes to offset lost Iraqi business with Iranian trade. But relations have always been prickly with the theocracy in Tehran and bilateral trade since the mid-1980s has consistently failed to live up to ambitious annual targets.

So the Gulf crisis has placed economic co-operation across and around the Black Sea in sharper relief. Coupled with falling barriers in eastern Europe, it has spurred recent Turkish trade agreements in the Balkans and with neighbouring Soviet republics, under the greater freedom granted them through perestroika.

"We are taking the establishment of a Black Sea economic prosperity zone very seriously", says Mr Ibrahim Cakir, deputy foreign trade and treasury under-secretary. Underpinning this would be bilateral trade with the Soviet Union, which has grown steadily from the mid-1980s on the back of an exchange deal of Turkish goods and services, including construction, for Soviet natural gas.

The volume is expected to increase to $1.5bn-$1.6bn this year, from $1.2bn in 1989, and to reach up to $5bn in about five years' time. Turkey sells a wide range of goods, from agricultural products to pharmaceuticals and medicines – the latter being increasingly short in supply in the Soviet Union.

As a base for a companies seeking to penetrate Soviet markets, Turkey offers unique advantages, according to a recent IBS report. Joint ventures are easier to establish in Turkey, for example, pragmatic ties of economic and technological co-operation already exist, and Turkey has a strong industrial base with a low-cost workforce, in many cases producing to Soviet standards.

The Gulf Crisis, coupled with the opening of eastern Europe, has placed the region in sharper relief

This year, Turkey is scheduled to purchase 4.1bn cubic metres of Soviet natural gas via the pipeline from the Bulgarian border up to Ankara, for which it will exchange $135m worth of goods, $86m in contracting services, and $95m in repayments of Turk Eximbank credits. The Soviet Union will also take an additional $40m worth of goods in payment for gas imports in excess of the amount agreed. In the early 1990s, the gas volumes are expected to reach 6.5bn cubic metres annually. Although the Soviet Union's present economic tribulations could slow further trade growth on cash terms, the Turkish government wants to extend the concept of the gas agreement to other sectors.

Apart from trade, opportunities for Turkey in the Soviet Union include construction, with projects in place already valued at a total $451m, about 25 light industrial projects and tourism. In the past two years Turkey has extended a total of $950m in export credit lines, both inside and outside the natural gas programme.

But the IBS report also cautions those entering Soviet trade to expect a marathon. To date, according to Turkish traders, companies operating within the gas agreement have had few payments difficulties, although (in common with other foreign suppliers) outside its protection some companies have reported problems in processing payments from cash strapped state companies for shipments of bulk goods like detergent.

The Turkish government has taken the initiative in the Black Sea, firstly on broad issues such as fisheries and the environment. Spearheading the trade thrust in the Balkans has been Eximbank, offering credit lines to Romania, Bulgaria and Hungary.

The most striking bridge thrown out in the Balkans has been to Bulgaria, only two summers ago vilified in Ankara for the persecution of its ethnic Turkish minority. Following a visit by Turkish State Minister Mr Isin Celebi, free trade zones will be established on either side of the common border, while Turkey will sell Bulgaria oil and electricity, and perhaps utilise some idle Bulgarian refining capacity.

To the north and east, Turkey has reached economic co-operation agreements with the Soviet republics of Georgia, the Ukraine, Moldavia, and most recently Azerbaijan. Parallels with the flourishing cross-border trade between the Soviet Union and Finland have been drawn and even the traditionally hostile republic of Armenia has showed signs of interest.

Recent Turkish trade missions to Azerbaijan have been welcomed as long lost Turkic cousins. Though these ethnic sentiments are perhaps not so so blatant in Ankara, a common identity of interest has nevertheless emerged. Agreement has already been reached for the construction of new highway links and border crossings, and the introduction of direct telecommunications and air links.

"The EC will always be our main market", says Mr Cakir. "But I believe Black Sea co-operation can work out. There is a willingness on both sides."

Turkey: Route to the Soviet Market – International Business Services A.S. (IBS), Abdi Ipekci Caddesi 59/4, Macka, Istanbul.

PRIVATISATION

Sell-off snags provide food for thought

IN THE 1980s, Turkey, like many other countries, caught the privatisation bug. The sell-off philosophy is still a central pillar of government economic policy, even if the results have been sometimes less than convincing.

In the words of the original master plan drawn up by US bankers, Morgan Guaranty, privatisation offers a way to make the economy more responsive to the market, so increasing industrial efficiency, and generating real growth. It is also a tool to increase the liquidity of the capital markets, to reduce budget outlays to industry and provide a flow of badly needed revenues to the exchequer.

Those arguments are perhaps even more pressing now given Turkey's broader political ambitions in seeking full membership of the European Community.

According to Treasury figures, the state enterprises recorded losses of TL 53.2bn in the first six months of 1990. How much money they actually make, given Turkey's notoriously arcane accounting conventions, is anyone's guess.

In addition, the State Planning Organisation has calculated that by end of 1990, state companies will have spent TL 6,500bn more than they earn, and this despite the recent price rises for many state enterprise products. In contrast, since the programme was launched in 1984 the proceeds from privatisation have totalled just TL1,000bn, according to official figures.

The programme was relaunched last month

Already majority stakes in five cement companies, airline catering concern Usas, and the Coca Cola franchise, Ansan, have been sold. In addition, minority stakes in a number of private companies have been floated off. These include the power utility Cukurova Electric, and Arcelik, the household electrics group.

In October, after months of inactivity, the programme was relaunched, yet again, with the sale of the first of three small cement companies which together are expected to raise about TL150bn.

The government announced that the companies would be sold under a public offering handled by more than 500 bank branches throughout Turkey. According to Mr Okkes Ozuygur, the chairman of the government-run Public Participation Fund (PPF), which was set up to transfer state assets to private hands, the offer is intended to test market sentiment prior to the proposed sell-off of the state airline, Turk Hava Yollari, the refineries corporation, Tupras, and Petkim, the petrochemicals complex. Sumerbank, the textiles-to-finance conglomerate, is also earmarked for a sale. It was always going to be an ambitious schedule. The 55 state enterprises still account for about 30 per cent of Turkey's industrial output while absorbing 60 per cent of public investment. They cover everything from public utilities to trade and banking. As nominal head of the state sector, Turkey's Prime Minister is probably one of the largest employers in the world.

Refrigerator plant of the Arcelik company, part of the Koc Group: a minority stake in Arcelik has been floated off

Mr Ozuygur cites the immaturity of the stock market as one reason for the delay. The stock exchange is still the favoured method of divesting state assets. But bankers warn that large scale sell-offs could create serious digestion problems and crowd out the capital needs of the private sector.

The programme has hit a number of other snags, some of them beyond the authorities' control, since the first offering in 1988 of shares in Teletas, the telecommunications joint venture between the Turkish post office and ITT. In the wake of the 1987 world stock market crash, Teletas met with a lukewarm response. Although initially oversubscribed, shares were soon trading below the issue price. A chastened PPF was forced hurriedly back to the drawing board.

It was then that the idea of a possible block sale was introduced, with the novel catch that any buyer would have to reissue a percentage of the shares through a public flotation within 5 years.

The mechanism was intended to deflect criticism that national assets were being sold off to foreigners. Recent events suggest it has been less than successful.

A court case is currently pending after the controversial block sale of Citosan Cement to a French concern last year. In April, Turkey's administrative court upheld a suit filed by opposition members of parliament that the sale to Ciments Français contravened the terms of a 1987 decree on privatisation intended to give priority to domestic buyers. The French company is now appealing.

Bankers warn that large sell-offs will create problems

Mr Ozuygur declines to comment on the issue but insists it is a technical hitch which should not deter foreign investors.

In the meantime, the Gulf crisis has done nothing for market confidence. If that was not enough, in October, in the latest embarrassing about-face, the PPF entered the market to buy some TL100bn worth of Petkim shares just to maintain the original issue price. The technical reasons for the intervention were clear. Bondholders with share options had dumped stock on the market. But all these incidents will have provided the PPF with plenty of food for thought.

John Murray Brown

Terry Kirk

The Bozkurt textile plant in Istanbul. Although liberalised imports and adverse exchange rates have eroded the profit margins of manufacturers and traders alike, exports have increased by 10-20% so far this year

Textiles account for one-third of foreign sales

Export power house

TEXTILES, the power house of exports, have had a difficult year. Liberalised cotton imports and adverse exchange rates have eroded the profit margins of manufacturers and traders alike.

Nevertheless, exports of cotton yarn, cotton textiles, and clothing increased by between 10-20 per cent in dollar terms in the first eight months of the year compared with January-August 1989, according to the State Institute of Statistics. Textile exports, valued at $3.2m, accounted for one-third of total exports last year. About 77 per cent of textile exports went to the European Community, 11 per cent to the US.

Protectionist quotas in the EC and North America remain a constant complaint. The thrust of a visit by President Turgut Ozal to the US earlier this autumn was wider market access for Turkish textiles, under Mr Ozal's general theme of 'more trade, not aid' in compensation for Turkish economic sacrifices as a result of the Gulf crisis.

The way that quotas have shaped industry since the early 1980s has increased exporters' present discomfort.

Manufacturing concentration has shifted from cotton yarn and grey cloth towards fabrics and clothes with a higher value-added content to make as much profit out of the quota volumes as possible.

"A restructuring is coming up in the whole of Turkish textiles", says Mr Halil Bezmen, head of Santral Holding, parent to Istanbul's Mensucat Santral. "Companies have to change, they can no longer produce cheap stuff. This way, we at least keep a 5-10 per cent profit margin."

In the past five years, Santral has invested the equivalent of $180m in Swiss francs towards higher value in its production, and in the next three, plans a further $40m. The policy is paying off – next year, the company expects sales totalling $250m, compared with around $150m this year and $118m in 1989.

Protectionist quotas remain a constant complaint

The trend towards more refinement has meant some quotas for lower quality products like cotton yarn and grey cloth have not been filled. This has somewhat detracted from the arguments of the Turkish textile lobby in Brussels. Out of a total EC quota for cotton yarn in 1990 of 92,500 tonnes, only 47,000 tonnes had been registered by the end of September.

"Our complaints are irrelevant", says one large factory owner. "A plethora of quotas are not being filled, and the overall amount going to the US, for example, will not exceed them all."

He does not expect the next round of negotiations in Brussels to much alter the scale and rates of EC protection against Turkish goods.

Privately, too, some traders say loopholes and back doors into Europe have opened out through the tumbling economic barriers between eastern Europe and the west.

By fine tuning purchasing prices and export sales, cotton yarn manufacturers claim they can still make a profit. But they face rising competition both in Europe and at home from Indian and Pakistani products.

On the other hand, Turkish textile producers, with their quicker market response to orders and changing fashions, are more competitive in Europe.

Undercutting by Asian producers has reached the stage where large fabric plants find it cheaper to use imported yarn and grey cloth than domestic output. Not surprisingly – they also face near dumping of raw cotton by Asian and other developing country producers – growers are turning over cotton fields to more lucrative crops.

Although not so restricted by quotas as cotton goods producers, synthetics manufacturers in Turkey have been affected by labour and energy costs, especially after the outbreak of the Gulf crisis.

Higher production costs, together with the slower lira depreciation than inflation, will probably combine to nearly halve the $30m worth of exports last year by Aksu, which makes knitted woollen and mixed synthetics goods, says its general manager, Mr Ihsan Gudukkurt.

Increased oil prices will also feed through to Aksu's sister company in the Akkok group, acrylics producer Aksay – the fifth largest in the world, with an annual output of 140,000 tonnes.

Rising factory costs have also pushed firms towards greater value added. Labour costs have risen dramatically recently – this autumn, pay talks with unions covering around 85,000 workers initially broke down over demands for a TL 1.5m monthly wage in the first year of the usual biannual wage settlements in Turkey, and a guaranteed, inflation-indexed 50 per cent increase for the second year. The outcome of the resumed negotiations will probably see a four-fold increase to around $4–$5 an hour, compared with two years ago.

Turkish producers respond quickly to fashion changes

One manufacturer describes these demands as catastrophic, and blames the state firm Cukobirlik for caving into its workers, thereby setting an industry benchmark. Comparisons with the income standards of European workers ignore discrepancies in productivity between them and their Turkish counterparts, he claims.

But Mr Bezmen, for one, is moderately sanguine about the increased labour costs. "These are normal, they happened about two years or so ago in Portugal," he says. "It is all part and parcel of industrial modernisation."

Jim Bodgener

ISTANBUL STOCK EXCHANGE

Immaturity exposed

THE GULF crisis finally caught up with the Istanbul stock exchange (IMKB) in early November, as the possibility of Turkey becoming a belligerent loomed closer. The frailty of the market as an arena mainly for small, individual speculators was painfully exposed as their confidence evaporated.

They followed on the heels of institutions and foreign investors by going liquid. But until then, the Istanbul bourse had displayed a remarkable resilience by surviving better than many a western centre, the index falling by 11 per cent to around 5,000 in mid-October compared with 15 per cent for the New York stock exchange and 21 per cent in Tokyo.

A war and its impact on the Turkish economy would bring the market truly to its knees with a collapse of around 50 per cent or more, some analysts predicted. But on the other hand, resolution without conflict would produce a surge of confidence on which the market would blossom again.

After an erratic start following its much-trumpeted revamp in 1986, the IMKB index raced upwards last year as yields from stocks and shares became far more attractive than negative interest rates on deposits, foreign exchange depreciation lagging behind inflation, and similarly depressed returns from gold and real estate. The market's resilience was all the more remarkable given the pressure on exchange rates of a widening trade deficit, and the inching upwards of bank rates, said Mr Melih Sensoy, executive vice-president for investment banking and capital markets at Yapive Kredi Bankasi.

Although the six-fold increase in some stock quotations in 1989 has not been matched this year, a series of what by Turkish standards are major flotations had evened out demand and supply. The largely family ownership of industry and commerce finally saw the time as ripe for the release of once-jealously guarded equity as a cheaper way of raising finance than onerous bank interest rates. Good corporate results on the back of industrial recovery driven by consumer demand had further whetted investor appetite.

The present total stock market capitalisation is around TL70,000bn, of which about TL12,000bn in around 100 companies is regularly traded on the floor, with no less than 24 entering the exchange this this year. Here the banks were leading players and suppliers, the most notable issue being that in the leading private sector institution, Akbank. On the other hand, playing the market accounted for around 25-30 per cent of some banks' income.

An important though sometimes over-rated catalyst has been foreign investment, which first entered the exchange in the guise of emergent market funds after Decree 32 freeing-up cross-border capital markets in August 1989.

Some analysts predict that war would bring the market to its knees

These were followed by country funds last winter, and finally international institutional investors in the spring. Further buying from abroad was mostly put on hold following Iraq's invasion of Kuwait.

But the crisis exposed the underlying immaturity and fragility of the exchange, which the watchdog Capital Markets Board seeks to address in a new capital markets law that could be introduced next year. Through a non-voting share entailing no loss of control, it seeks to encourage more companies towards flotations; on the other hand, for the first time, insider trading will be illegal in theory.

In practice, however, most dealing on the exchange would be considered insider trading in more developed centres. In such a thin market with untraceable bearer shares, companies manipulate demand with both buying and selling, compounded by alack of hard company information, says Mr Zeki Dosluoglu, head of broker Yatirim Finansman.

Insurance companies and pension funds still view the market conservatively, while there is as yet little idea of portfolio management, says Mr Henri van't Off, until recently Ottoman Bank's capital markets and treasury co-ordinator.

Investors are mostly small-time speculators. "We have to have more market makers", says Mr Sensoy.

"I've seen this before in other emergent markets", adds MrMaarten Hulshoff, general manager of Citibank in Istanbul. He points out that government securities offer more assurance, but far lower price/earning ratios than stocks and shares. Consequently, on the exchange, speculators seek the technical, short-term differentials of prices often wildly disproportionate to company performance.

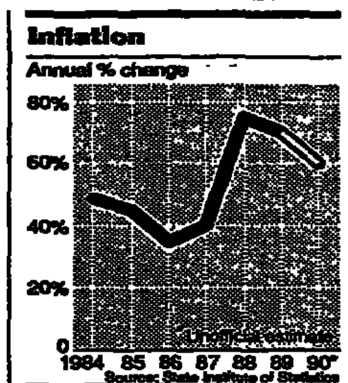
This is inimical to the growth of a stable and secure foundation for posterity, says CMB chief Sukru Tekbas. Under the new law, the CMB will establish a depository centre with mandatory custodianship of all shares through which their movements can be tracked. And together with the central bank, greater electronic automation will be introduced and clearing and settlement functions separated.

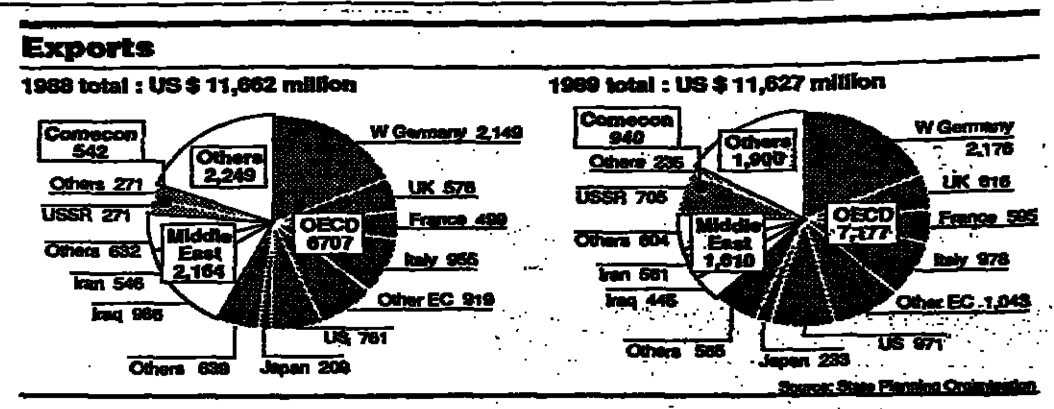
The exchange also needs to move into a larger building than its present premises in Tophane, where the tiny trading floor can no longer cope. A resultant street market outside has taken the pressure of small orders, but could be a seeding bed for fraud, as in the scandal this year of the circulation of around TL12bn of fake shares in market leader Cukurova Elektrik.

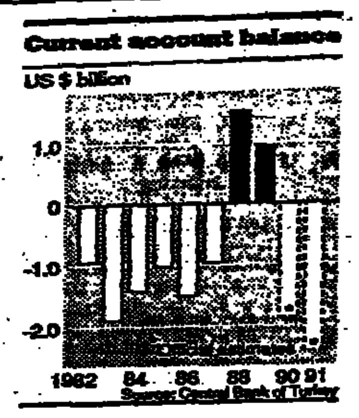
The IMKB recently allowed six institutions to compete with street trading by selling below its minimum lot of 200 shares. If the municipality can be persuaded to waive conservation objections, the exchange may get an historic building in Macka.

Pinning his hopes on general economic growth, Mr Tekbas is optimistic. "The 1980s were for the banking sector in Turkey, the next decade will be for the securities market", he says confidently. That is echoed by Mr Hulshoff, who wants to move his beefed-up branch of Citibank away from over-crowded foreign exchange dealing towards corporate underwriting. "Global markets are opening up, and I want to present Citibank as a gateway both for and to Turkish equity", he says.

Jim Bodgener







Anxieties arising from the Gulf crisis should not obscure Turkey's real economic achievements. But, as **David Barchard** reports, the outlook for 1991 is chilly

Problems of a dynamic economy

SELDOM HAS a boom come and gone so quickly. Last year Turkey's gross national product grew by 1.7 per cent, a sluggish performance by the standards of an economy accustomed to annual growth rates of between five and seven per cent over the last 20 years.

By September this year, the government was predicting that growth in 1990 was likely to be around 10.5 per cent, roughly twice the level predicted at the start of the year. Now, in the wake of the Gulf Crisis, the barometer is once more falling rapidly. Treasury officials say they now expect the year end GNP growth figure to be 8.5 per cent or even lower. The outlook for 1991 is beginning to appear distinctly chilly.

Treasury officials expect year-end GNP growth to be 8.5% or lower

Yet the anxieties flowing from the Gulf crisis have to be set against the real achievements of the Turkish economy in the last decade.

Though Turkey's economy and per capita gross national product are still small by OECD standards, the country is moving steadily towards the establishment of a large industrial economy. Growth of manufacturing this year is set to be 11.8 per cent.

The problem is to channel the obvious dynamism of the Turkish economy into the most productive sectors and find a way of meeting the aspirations of individual Turks who want a consumer society now.

The 1990 boom was real enough. "At our plant we find that we are lagging behind on our export commitments because of an unexpected flood of orders from the home market. I haven't seen anything like it since the 1970s", says one Istanbul industrialist.

Behind this explosion of spending at home lie several factors: a massive round of salary increases in 1989, when some civil servants got raises of up to 300 per cent; a growing government budget deficit (a slowdown in government spending in 1988 and 1989 seems to be the main reason why economic growth fell sharply in those two years); high spending by farmers in a year when agriculture has done well; and the appearance of consumer credit in Turkey for the first time.

Another factor may be the expectations that high inflation generates among individual Turks and companies.

Turkey has had one of the highest inflation rates of any OECD country since the early 1960s.

In the mid-1980s, the inflation rate hovered in the upper 20-30 per cent range. In 1988 (following the 1987 general elections) it shot up to 75 per cent and the 69.6 per cent inflation rate of 1989 was considered something of an achievement, since it had been widely assumed that inflation would go into three digits that year. Much of the improvement was achieved by relying on heavy inflows of foreign exchange from tourism and short term capital to prop up the lira.

This year the trend of inflation has been downward, though not as sharply as Mr Güneş Taner, minister of state for the economy, would like to see.

He has hinted that he may resign unless inflation comes down to around 40 per cent by the end of the year.

Much depends on fiscal policy and the control of the budget deficit.

Mr Mahfi Egilmez, deputy under-secretary at the Treasury, hopes that the deficit can be held down around last year's level of 7.5 per cent of GNP, though the original targeted budget deficit of TL10,000bn ($4.16bn) now looks more likely to be TL15,000bn ($6.25bn) by year end.

A new finance minister, Mr Adnan Kahveci, is courting public unpopularity by trying to hold down wage increases to state employees in 1990 while increasing the government's tax take.

Turks who are feeling the pinch now should not necessarily despair.

Government projections for

Much depends on fiscal policy and the control of the budget deficit

1991 suggest that industrial wages will rise by 106 per cent during the year. Mr Kahveci's stinginess towards the public sector may turn into generosity as general elections (due by 1992) approach. He has argued in public that the Motherland Party's best hope of winning the next elections is to keep the growth rate above 10 per cent.

On the payments side, perspectives continue to be dominated by the debt burden, expected to be around $43bn by the year end.

Servicing the foreign debt will cost Turkey around $7.2bn this year on GNP of around $106bn.

Thanks to the strong inflow of capital from abroad, Treasury officials in Ankara are able to dismiss debt servicing as "no problem" – a marked contrast to the state of affairs that existed three or four years ago.

Today, thanks largely to the dismantling of foreign exchange controls, Turkey's reserves are stronger than ever – around $11bn and meeting debt repayments schedules is no problem.

It is not quite so clear that this will remain the case if a strong lira continues, making life tough for Turkish exporters.

Last year imports climbed from $14.3bn in 1988 to $15.8bn, while exports slipped back from $11.9bn to $11.6bn. This year, exports are making a little headway and may perhaps climb above the $12bn mark by the end of this year, but imports look set to soar to around $19bn.

As a result the current account, probably the best single indicator of Turkey's economic health, is back in the red, as it was almost every year until 1988.

There was a current account deficit of $1.44bn in the first six months of the year compared to a surplus of $340m in the same period in 1989.

The trade balance is worsening because exchange rates against the lira, heavily devalued between 1980 and 1988, have lagged well behind inflation in the last two years.

This has helped the government to hold inflation down below the three digit levels, but it has made life increasingly difficult for exporters.

Defenders of the present exchange rate policies say that a strong lira forces exporters to become more efficient and to upgrade their products.

Even so, officials in Ankara admit to being surprised at the course events have taken. "No one expected that the lira would hold up so strongly and as a result Turkey lost several Middle Eastern markets, especially in the textiles business, even before the Gulf crisis began", says one official at the State Planning Organisation in Ankara.

With reserves of around $11bn, debt repayments are no problem

Meanwhile the government has made some gestures to curb the growth of imports. Petrol prices have been increased three times following the imposition of UN sanctions against Iraq. There was a 15 per cent rise in import tariffs and other surcharges in September.

This is something of a step back from the government's proclaimed attachment to free trade.

Though the Central Bank says that it has no exchange rate policy and certainly does not contemplate a devaluation, among businessmen and bankers it is not difficult to detect the believe that the present situation cannot go on for ever, even if strong reserves mean that it is taking longer for pressures to make themselves felt.

هكذا من الاصل

Efforts to overhaul the banking sector continue, writes **David Barchard**

Central Bank builds up its watchdog role

Terry Kirk

Above: Rüşdy Saraçoglu, Governor of the Central Bank, takes much of the credit for building up its independent regulatory role, though the Treasury is still important

1990 has been one of the less painful years in recent Turkish banking history. Bank profits at the half year were generally well up on 1989 and look set to stay that way for the remainder of the year. With domestic demand stronger than ever, most of the large banks found their new retail banking operations performing better than expected.

"Everyone is very pleased", says Mr Unal Korukçu, chief executive of Türkiye Iş Bankasi, one of Turkey's two largest private sector banks.

Relatively easy market conditions perhaps chiefly reflects the ability of the banks to hold their interest rates around or below the level of inflation – in marked contrast to the situation two years ago, when competition temporarily drove rates up to astronomic levels.

But it also reflects the achievements of a decade-long slog by the Central Bank and the Treasury to overhaul the banking system, culminating last year in a set of rules intended to bring capital adequacy levels up to BIS standards by 1993.

Some features of the market have yet to change. Corporate lending remains extremely tough, even though rates to prime customers this autumn are around 55 to 65 per cent – a level which may sound horrific but compares favourably with recent Turkish banking experience. Two years ago, rates to borrowers were over 100 per cent and throughout much of the 1980s they were at levels which most customers found impossible to sustain, thus leading to a serious crisis of the financial system in the mid-1980s when some banks had up to 60 per cent of their loan portfolios non-performing.

"There is much more competition these days and the banks have a much clearer conception of their roles than they did before 1985", says Mr Camil Köksal, executive vice-president of Yapi ve Kredi Bankasi.

Yapi ve Kredi, a member of the Çukurova industrial group, led the way two years ago away from corporate lending towards retail banking. It has since been followed by most of its large rivals. With very limited money transmission services available in Turkey, automatic teller machines have proved popular with consumers, though it is less clear that they are generating much of a return for their owners.

Consumer credit in Turkey essentially means personal loans business of up to TL100m ($400,000) – the top amounts going on housing loans. Maturity is usually two years and the loan, by European standards, does not come cheap. Mr Korukçu, says his bank charges between five per cent and six per cent a month on its loan business – annualising out at around 102 per cent.

If these rates sound exorbitant they have to be set against Turkey's runaway inflation and the fact that six or seven per cent a month is the prevailing rate of interest in Turkey for private loans between small businessmen.

'There is much more competition these days'

Credit scoring is computerised and Mr Korukçu says, despite the lack of any kind of national credit reference agency, bad debts have been few and far between until now.

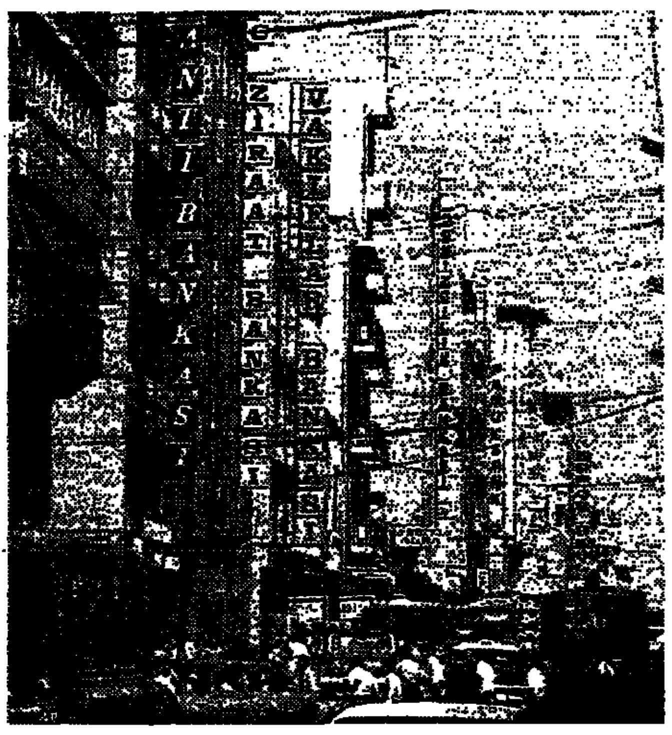
Though mortgage lending in Turkey is the preserve of the state-owned Turkiye Emlak Bankasi, along with special facilities to granted to one or two other banks such as Pamuk, an offshoot of the Çukurova Group, the larger banks are now starting to offer housing credit products. These are quite a long way from fully-fledged mortgages, having a life of only two years.

One brake on the banking system was eased in June when reserve requirements were lowered by two percentage points, though they are still very high by any European standards: when reserve requirements and other charges are taken into account, Turkish banks can only utilise just over half the funds placed with them by depositors.

Most supervisory duties for the banking sector still rests with the Treasury, but the Central Bank is slowly building up its role as an independent regulatory authority in a free market. Last winter it announced its first ever monetary programme and has warned that it intends to stick to it. "Our aim is to be as independent as the Bundesbank", says a Central Bank official.

That declarations of this kind no longer sound quite as hollow as they once did is largely the work of the man who has been Central Bank Governor since 1987, Mr Rüşdu Saraçoglu, who was appointed to a second term, to run for five years at the end of July.

Mr Saraçoglu, who has only just turned forty, is proving to be the toughest and most durable of the appointments made during the years in which Mr Ozal was prime minister.



One of the most striking signs of change in Turkish banking is that the privatisation of at least some of the state sector banks which until now have dominated the Turkish financial system. The obvious candidates for sale to the public sector are smaller banks such as Türkiye Ogretmenler Bankasi and Denizcilik Bankasi. The idea of privatising Ziraat (the agricultural bank) or Vakiflar still seems to be some way off and the split between the Istanbul-based world of the smaller livelier private sector commercial banks and the state banks of Ankara looks set to continue.

Meanwhile Turkish banks are complying, step by step, with a programme laid down by the Treasury a year ago intended to bring their capital ratios up to BIS levels. The day when Turkish banks find themselves playing in global – or at least European – markets may come sooner than many realise, although the head of one large bank says engagingly that he is not in the 1992 game.

Turkish bankers still think almost entirely in terms of an insulated national banking market. Foreign players in the Turkish market are still almost all small trade finance specialists. Only the Ottoman Bank, an offshoot of Paribas but, as its name suggests, with roots stretching back to the mid-19th century, has a branch network and a strong presence in the retail market.

Through some of their retail banking products, such as credit cards and automatic teller machines, Turkish banks are already forging closer links with the outside world – and Turkish customers are finding out something about banking products available on international markets.

Whether they will be able to do so indefinitely is doubtful. Some glimmerings of possible transnational alliances are beginning to appear: Ak, the largest private sector commercial bank, has a joint venture with BNP of France and Dresdner of Germany.

In one respect, however, the outside world is breaking into Turkish banking. A government decree is being prepared which will make offshore banking possible in the four free zones now operating around the country. At present a few banks are already working in the zones, but only on a very limited scale.

Mr Mahfi Egilmez, deputy under-secretary at the Treasury, says the intention of the draft decree is not to create another Bahrain, but to maximise existing possibilities, especially out of Istanbul, to take advantage not only of Middle Eastern but also eastern European opportunities.

INSURANCE

Decade of expansion

SWEEPING deregulation of the insurance industry this year has opened the way to what could be a decade of unrivalled expansion in a sector hitherto constricted by archaic fixed tariff and cover structures. But liberalisation has also prompted fears of irresponsible price undercutting.

Total insurance premiums, including reinsurance, for 1989 were TL1,139bn ($492m), an increase of around 90 per cent over 1988 against inflation of around 60 per cent. This year, the total figure in the first half was already around TL1,100bn.

Yet per capita spending for insurance in Turkey is still only $6, compared with $30 in Greece and $16 in Egypt. Clearly, there is a long way to go in disproving the widely held belief in a fatalistic mentality among Turks, rooted in Islam, which mitigates against insurance.

New foreign and domestic concerns are swarming into the market, as they did in the banking, trading and tourism sectors in the 1980s, says Mr Osman Erk, general manger of Basak Sigorta. But sooner or later, there will be a shake out, he predicts.

There have been two waves of deregulation this year, at the beginning of May and October respectively.

But the Turkish public has been slow to catch on, while insurance companies themselves have sought refuge in association. For example, agricultural, engineering and accident cover were liberalised in the first wave – soon afterwards, on June 1, the market itself came up in a 'gentlemen's agreement', with a uniform scale of rates for accident.

Predictable crops in agriculture stabilise competition, though several firms were caught out by hail in southern Anatolia this summer, which forced pay outs totalling around TL3.5bn.

In engineering insurance, the sums involved for projects are so large that Turkish companies with their lack of expertise and capital adequacy rarely take on more than 5 per cent of the total risk, farming the remainder out overseas.

Car insurance perhaps has been most transformed – where it once hamstrung companies with ridiculously low premiums and excessive cover limits for mandatory third-party liability, the gap has closed considerably. Companies can now post tariffs closer to the actual car value.

The second wave of liberalisation in the fire and marine sectors was more important in corporate terms, because, broadly speaking, companies rather than individuals are the clientele.

Presently, there is a buyers' market, because it is compartmentalised and fairly limited in growth, while an increasing number of companies are chasing the business, says Mr Erk. Many banks and business own insurance companies, and market penetration is difficult.

Per capita spending on insurance is $6

Nevertheless, fire is promising, as is marine cargo insurance. However, hull insurance does not pay so well, because of the relatively old age of the Turkish merchant fleet, many tankers heading towards the scrap yard with worn-out machinery.

From October 1, public sector cover was opened up to the market at large, where previously it was the preserve of six state-owned firms such as Gunes Sigorta.

Given the size of the state sector, there are promising opportunities for insuring installations such as cement plants and petrochemical complexes.

Life insurance offers the most promising growth

One problem in the insurance sector is payment collection, says Mr Ender Sener, Gunes' assistant general manager.

"Our main aim is on-time collection for agencies and insured", he says.

There is no concept of value date, or credit terms, because no incentive mechanism exists in the domestic market for on-time premium payments. "Nowhere else in the world but Turkey disregards time-value periods. There's no incentive for corporations or individuals to quicken payments", says Mr Erk.

At the close of 1989, the insurance sector was close to TL26bn in deficit in its cash position.

This was bridged by net earnings from investments – not from trading on the stock exchange or in the capital markets, but wasting fixed assets like real estate. Banks can solve this difficulty by lowering rates to attract more deposits. But the flow of insurance premiums is far more inelastic and slow, whereas loss payments are immediate cash outflows, points out Mr Erk. He cites this as a reason why Turkish insurance companies need greater capital adequacy.

A comprehensive draft insurance law requiring a five-fold increase in minimum capital adequacy levels to TL25bn (about $9m), among other reforms, may be introduced by March.

One way of bolstering capital adequacy through deregulation is a wider range of services. "With our expertise, we think we can win that kind of competition", says Mr Sener. "Reducing rates is not the best way to get new business."

The most promising growth avenue for Turkish insurance companies is life insurance, which grew by 205 per cent in 1989 compared with 1988. Although it has not been deregulated, individual insurance companies draw up their own scale of tariffs for approval by the government insurance commission. Life is also being promoted strongly in media advertisements.

Over the past two years, foreign interest in the market has grown steadily.

While generally welcoming the infusions of expertise and capital in joint ventures, some local companies complain that the newcomers poach staff from existing companies.

But these are grumbles, rather than insurmountable hurdles. Liberalisation has already brought in its train novel facilities, reduced premium prices, and heightened competition.

Jim Bodgener

Motor industry expects a record year, writes **John Murray Brown**

Car makers move into gear

ON A WET and windy quayside on the Sea of Marmara last month, Turkish workers were busy loading a shipment of locally made cars - 80 Renault 9s destined for their new owners in the Soviet republic of Moldavia.

If the weather somewhat dampened the celebrations, the send off was nonetheless a moment of symbolic importance for Turkey's car industry, which is expecting record growth for the current year.

Renault and Fiat, the market leaders, both report improved sales. The buoyant Turkish car market is attracting new investment, most recently from Toyota of Japan.

Meanwhile, the cut in import duties has resulted in a sharp increase in imported vehicles, forcing existing producers to raise their efficiency levels.

Understandably, the car makers were a little put out. Until the increases, announced earlier this month, the tariff on an imported car was actually less than that for a completely-knocked-down (CKD) kit.

In 1989 the duty on imported built-up cars was cut to 31 per cent, compared with the 36-38 per cent for the CKD.

As a result, for the first time imports were able to compete in the domestic market.

Industry analysts forecast foreign car imports this year to reach 40,000 cars, about 20 per cent of the total market, with Japan's Mazda the leading imported car.

However, many industry officials predict that it will be hard to sustain the performance, given that the imported cars have no guaranteed supply of spares and no after-sales service.

It has, nonetheless, had a dramatic effect on prices, with many producers having to freeze price rises to compete with imports. Renault says it has not been able to raise prices for 6 months.

For all that, Turkey is still considered an attractive investment location.

Toyota has linked up with Sabanci, a local Turkish conglomerate in a $320m assembly plant investment in Adapazari, north-west Anatolia.

Starting with an initial production of 20,000 units, the factory will eventually turn out 100,000 cars per year. Officials say the plant is geared to produce complete vehicles, although with the duty free status of Turkish industrial goods entering the European Community, many observers believe the Toyota venture will be intergated to target that market.

Industry analysts forecast foreign car imports this year to reach 40,000 cars

Until the recent financial troubles of Polly Peck, Peugeot and Citroen were considering a $400m joint venture with the UK fruit and industrial group to make the Peugeot 405, and possibly another model,at a factory site near Izmir on the Aegean.

General Motors of the US, meanwhile, has agreed on a smaller, $25m investment to produce the Opel Vectra model, with a capacity of around 10,000 units.

The improved sales climate is particularly welcome for Renault, one of the first foreign auto companies to invest to Turkey, enticed by the protection offered under Turkey's import substitution regime, but now keenly searching for sales outlets in Turkey's newly competitive trade environment.

"I can't imagine Renault in Paris even thinking of going to Moldavia," says Mr Bernard Brun, the manager of the company's Turkish operation. Hitherto, almost all Renault's car exports went to francophone North Africa.

This success story is repeated throughout the Turkish car industry, as the import regime has been dismantled, in an effort to encourage further competition.

For example, Renault this year expects to produce an average of 310 units a day, compared with 170 in 1989. Officials say the figure could be 450 in 1991.

In line with this, the workforce has also been increased from 3,000 workers last year to 4,500 in 1990.

Renault will produce 70,000 units this year at its Bursa facility. Exports, up to now a relatively unexplored area, look set to reach $90m this year. By the start of 1991, the factory will have an installed capacity of 100,000 units.

In a joint venture with the local Koc group, Fiat is also set to speed up its plans to build the 1.6 litre Tempra, which was only introduced to the Italian market earlier this year.

From an initial production level of 20,000 units a year, the company expects to increase output, eventually reaching the point where the Tempra has replaced all existing Fiat models.

Fiat's strategy is markedly different from that of Renault. The French group is just introducing the Renault 21 to the Turkish consumer – a model which has been in production in Europe for four years.

In addition the factory will continue to make the 11, 9 and the Renault 12.

Bursa is now the centre of a web of local part suppliers, numbering 170 in all, some of them in turn linked with foreign parents. France's Valeo has a joint venture to make alternators and starter motors to supply Renault.

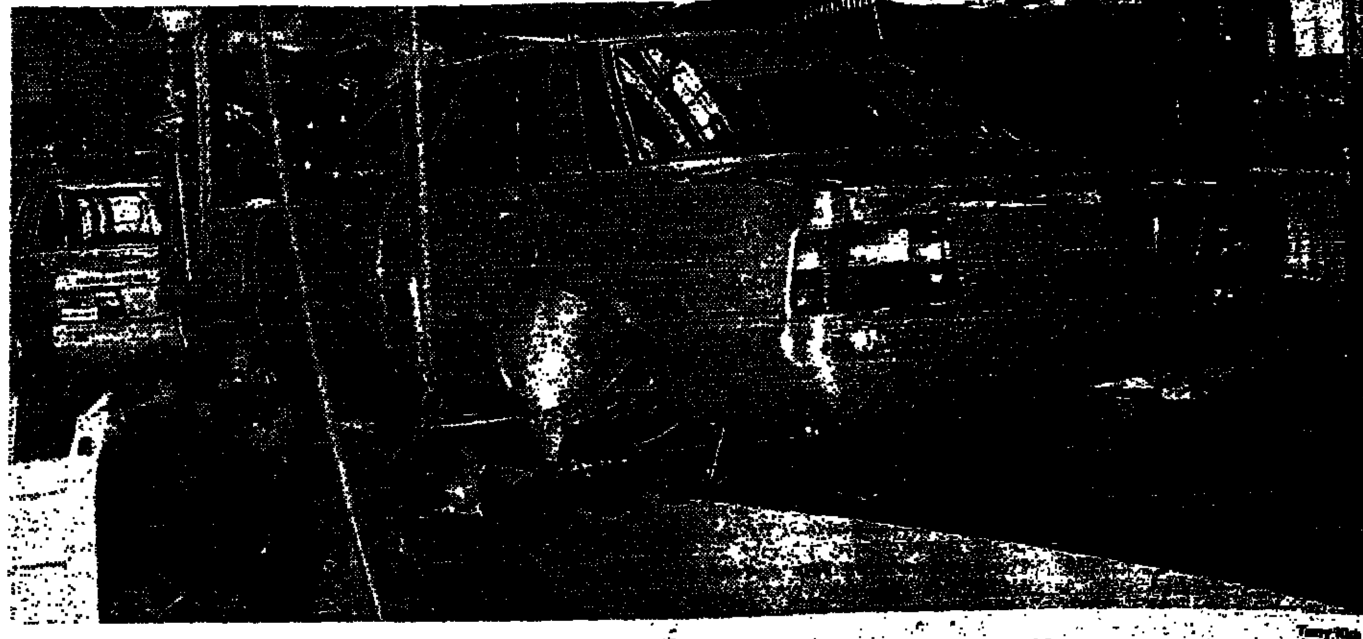
Levels of local manufacture are continuously increasing. For the Renault 12, for example, there is more than 90 per cent local production. Only the carburettors and a few electrical parts are still imported.

"The problem is not the technology, it's the organisation," says Mr Brun.

The Bursa plant employs none of the automation of a modern Japanese facility. Inventory controls, using just in time stock management techniques are still at around one week for many parts, compared with a couple of hours in Japan.

But what the factory loses in sophistication, it makes up in cheap labour. Assembly line workers earn Tl 2,300 an hour.

"And just imagine if the wages were at European levels, we'd have a market of 2m vehicles in Turkey," says Mr Brun.



Otosan car plant, part of the Koc group, at Kadikoy, Istanbul: the industry expects record growth this year

Terry Kirk

PROFILE: TUSIAD

Free market advocates

THE Turkish Businessman's and Industrialists' Association (TUSIAD) has been constantly harrying the government over the past two years.

In the process, it has metamorphosised from an interest to a pressure group, says its young president, Mr Cem Boyner. Much credit for this transformation – though he disclaims it – must go to Mr Boyner, one of a new breed bridging the gap between the traditionally conservative and familial ownership of industry and western-educated, professional management.

But TUSIAD also paid the cost of becoming a controversial body, says Mr Boyner. It is not unrepresentative, with a membership embracing 80 per cent of the top 100 Turkish corporations.

Under Mr Boyner's leadership, TUSIAD has vigorously addressed itself to both macro-economic as well as specifically business issues. The organisation, like the government, has been one of the strongest advocates of the free market over the past six to seven years. "We totally agree about the aims, but not the way they have been implemented," says Mr Boyner.

The government ostensibly sought a market economy, but now the state, if anything, is more dominant; while TUSIAD promotes domestic production and export-led growth, today there is unhealthy consumption-driven expansion. In December, the organisation will publish its own Country Strategy Report, the outcome of two years of preparation and study.

"Budget deficits – issue number one," says Mr Boyner. "So long as we have high public sector borrowing requirements, we can't solve inflation." He complains that rhetoric about fighting inflation has become mere lip-service in some high government echelons – though he excepts the central bank's monetary programme.

On the external account, market forces would push exchange rates down and revitalise the competitivity of exports were it not for inflows of volatile 'hot money' from foreign speculators, a fickle support to the current account. In 1991, if the Gulf crisis continues, Mr Boyner foresees reduced inflows from exports, worker remittances and tourism. "Forex earnings should be a priority next year", he says.

While there has been industrial recovery, this is mainly because of exploitation of existing unused capacity, according to Mr Boyner. Rising demand encourages new investment, loan availability and terms do not, except for companies with strong credit ratings andsturdy asset bases. Even so, the outlook had been promising.

"The Gulf crisis came at a very bad time, when we had almost got the ball rolling," Mr Boyner maintains. "We are not going to get sufficient compensation for the Gulf crisis." Compared with Jordan and Egypt, Turkey is thought by the west not to need the money because of its strong economy, he adds.

"We are neither fish nor meat, not considered strong enough to join the Community, nor weak enough to rate financial assistance."

Jim Bodgener

CONSTRUCTION

Building on advances in expertise

CONTRACTORS have had to adapt to changing circumstances and markets more than any other corporate sector in Turkey over the past 10 years. First the Middle East, then the domestic infrastructure rise, and latterly the Soviet Union, have been their moving targets.

New contracts won in 1989 and 1988 still notched up to a considerable $2bn, while orders in the pipeline, both committed and potential, total $6bn and work in progress, $4bn.

Several Turkish companies have been hard hit by their exposure in Iraq and Kuwait, where most were uninsured. Estimates of losses total about $800m. Enka Insaat had $344m worth of exposure, much of it on the large Bekme dam scheme close by the Iranian border in the north. In Kuwait, BMB had just started work on what was claimed to be the largest single civil engineering contract ever in the region, for the Shuaiba power station.

The natural gas import programme has created a plethora of work

In the wake of the crisis, Gulf prospects have nosedived for Turkish contractors. But strong markets remain in other Arab countries – Libya, in spite of the trials of other companies, has always provided a steady stream of work for Sezai Turkes-Feyzi Akkaya (ST-FA) without complications, says board member Mr Kamuran Gurun. A large source of work recently has been the Giant Man-made River (GMR) scheme transporting water from distant desert aquifers to industry and farmland on the Mediterranean coast.

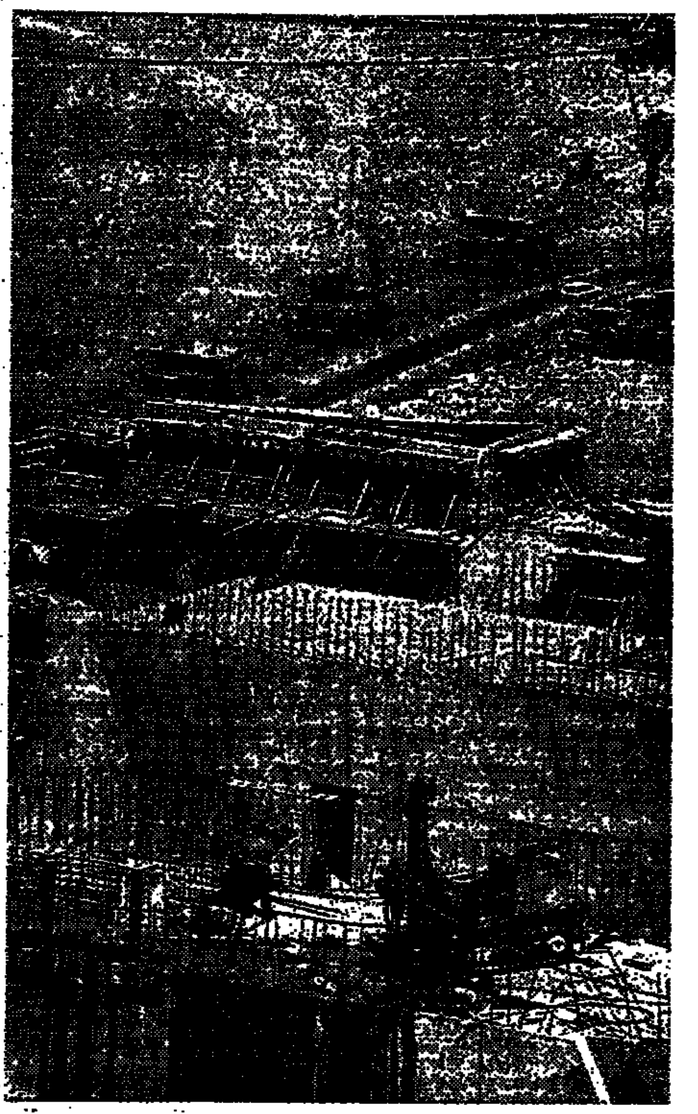
Tripoli this year also rehabilitated Turkish banks, discredited in the early 1980s by the alleged defaulting by some institutions on performance bonds for contracts failed by undercapitalised and inexperienced Turkish companies.

Turkish contractors as a body entered the Middle East comparatively late after the Koreans in the early 1980s. But the region served as a training ground for the domestic infrastructure construction spree in the mid-1980s unleashed by the rapid development policies of the conservative Motherland Party and its leader, the then prime minister and now president, Mr Turgut Ozal.

Economies forced by the profligacy of an election year in 1987 cut down radically on the number of new projects coming to the market, but a substantial carry through remains. "The government is still moving fast on infrastructure construction, which it sees as its first duty," says Dr Uzeyir Garih, chief executive officer of the Alarko group of companies.

But public works expenditure has been blamed by some critics as one of the prime engines of high inflation. The large toll motorway construction programme is looked on askance by the World Bank, for example, which believes the money might be better spent elsewhere. About 2,000 km in sections of toll motorways are under construction, both as transit trade routes to the Middle East, and to open up the Anatolian interior for industry and agriculture. Beginning with the second Bosporus bridge in 1985, now built, the contracts are largely due for completion in the early 1990s. About $1.5bn will be spent on the programme this year, and probably as much again in 1991.

Much of it will be funded internally by the government's Public Participation Administration, because the work has considerably expanded from two to four-lane carriageways since the contracts were first awarded on the strength of foreign export credit in the mid-1980s. For example, a contract awarded to a group led by Tekfen, the contracting company, for sections between Tarsus and Gaziantep in the south-east has risen from $360m to $1.2bn in value.



The South-eastern Anatolia Project is the largest enterprise carried out in Turkey. The region borders Syria and Iraq

Another heavy drain on the exchequer has been the big Ataturk dam in the south-east, although its large embankment impounding the Euphrates river is now mostly in place. Big contracts have also been awarded this year for the erection of high-voltage electricity transmission lines across Anatolia from the Ataturk dam's 2,400MW generating capacity.

New contracts won in 1989 and 1988 notched up a considerable $2bn

The budgetary squeeze threw more emphasis on the novel, "build-operate-transfer" (BOT) contracting method pioneered by the Turkish government, which involves farming out the financing and construction of large utilities to private sector groups. Though first broached in the mid-1980s, contractors express disappointment with concrete results from BOT in Turkey so far. Not one large scheme is yet off the ground compared with other developing countries such as Malaysia which have adopted and implemented the idea.

However, BOT contracts could be signed up soon for a hydro-electric dam at Birecik downstream of the Ataturk dam, and a world trade centre and new foreign airlines terminal at Istanbul's Ataturk international airport. But banks and contractors have serious doubts about government support for Istanbul municipality's grandiose BOT project for a tube crossing of the Bosporus connected to the first stage of a metro system on the European side.

At the same time, the government is pushing rapidly ahead with the first $1bn stage of a scheme which eventually could cost up to $5bn to relieve the ancient city's chronic water supply deficiencies, exposed by prolonged drought this year to the further detriment of the unpopular, social democrat mayoralty. Completion of the first stage piping water along the eastern Black Sea coast from the mouth of the Melen river is scheduled just before the next general election in 1992.

The most tangible growth area for leading Turkish companies lies abroad again, in the Soviet Union, where a substantial bridgehead has been established within the terms of payment annually for imports by Turkey of Soviet natural gas. A quarter of the bill for the gas is met by contracting services, for which awards so far have totalled $228.5m.

In Turkey itself, the natural gas import programme has created a plethora of work in transmission and distribution pipelines, with the next large project a $270m scheme build a large gas reservoir under Tuz Golu, the central Anatolian salt lake.

Finding the gas deal insufficient, Turkish companies have branched out as subcontractors or partners to Soviet or Western companies. Contracts may also start to flow soon from a $350m line of project finance from the Turkish Export Credit Bank (Eximbank) for light industrial plants in the Soviet Union.

There seem to be no limits, apart from market opportunities, on where Turkish contractors are prepared to go – one even recently submitted the lowest price in a tender competition for a large office block in New York. Tekfen, for example, is looking at jobs in places as far apart as Pakistan, India, the Soviet Union, Afghanistan, Czechoslovakia, and Bulgaria.

Turkish companies have come a long way in terms of management and technological expertise during the last 10 years, according to Mr Murat Gigin, who heads Tekfen's construction operations. "European companies have come to work in Turkey", he says. "There's no reason why we shouldn't seek contracts in their countries."

Jim Bodgener

Workers in the Aegean port of Izmir have their heads shaved in a protest for higher pay

INDUSTRIAL RELATIONS

Strong talk on inflation

THE SIGHT of a Turkish metal worker with one side of his head shaved and his famous bushy moustache similarly arranged, is just the latest gesture of the trade union militancy which threatens the country's industry.

Union issues today are central to Turkey's economic plans and vital to its broader political ambitions in seeking full membership of the European Community.

Unrest is growing once again among Turkey's organised workforce – and if the strong talk of union leaders is any guide, a showdown seems unavoidable.

Leading the call is Turk-Is, the moderate rump of a once powerful trades union movement which was all but outlawed after the military coup d'état in September 1980. DISK, the more radical labour federation was closed down by the military and its leaders arrested.

Under Turkey's system of biannual collective wage bargaining, unions and management have 60 days to reach an agreement. After that the issue goes to official arbitration. When that fails, strikes ensue.

In the first seven months of 1990 more than 1.2m days were lost through strike action, according to figures from the Metalwork Employers' Union.

The frequency of strikes started to increase in 1986 and reached a record high of nearly 2m working days lost in 1989, the highest level since collective bargaining was introduced in 1963.

But after a decade when union power has been systematically undermined in a bid to maintain industry's competitiveness, Turkey's labour problems are now coming home to roost.

"The military put the labour legislation in place after the coup, but its still there today under our democracy," complains Mr Sevket Yilmaz, chairman of Turk-Is, the largest union federation with 2m members.

Under the constitution framed by the military, a general strike is illegal. In certain sectors, such as banking, healthcare and education, strike action of any sort is outlawed. On top of this, unions are banned from participating in political parties. Mr Yilmaz is still restricted from appearing on state television, unlike his counterpart in the Islamic Hak-Is union.

But the immediate cause of today's trouble is inflation, roaring ahead at over 8 per cent a month. In the latest round of collective bargaining, some unions are demanding as much as 500 per cent increases.

"All we want for our workers is to give them a wage that stays ahead of inflation," says Mr Yilmaz. According to Mr Alaeddin Cecili, the head of the Ankara Chamber of Industry, the current wage demands would amount to giving the entire Turkish national income to just 3.5m people.

Like many industrialists, Mr Cecili traces the current dispute to the dismal results in last year's borough elections which then forced government to award generous wage rises to civil servants – creating the negotiating climate for today's claims.

In September, talks with workers from the important coal and textile sectors had already broken down, affecting 125,000 jobs. In the private sector, another 330,000 workers are still negotiating, whilst 650,000 in the state enterprises wait to start pay talks.

Economists acknowledge that through most of the 1980s workers' wages fell woefully behind the cost of living. Aided by a competitive exchange rate, Turkey's outward-looking trade policies have helped to restrain domestic demand, as industry provides for export expansion. But the terms of trade have moved massively in favour of industry. With farm subsidies cut, agricultural prices have been held back, and urban wages in turn have been restrained.

In an earlier round, unions won one important concession from the government, under an agreement to index part of the wage increase to the inflation rate.

But there are few other signs of the government softening its stance. Legal proceedings against DISK have still not been completed. In January 1990, criminal charges against one man – Mr Celal Ozdogan, the secretary General of Otomobil-Is – were still pending. In its negotiations with the government, the International Labour Organisation (ILO) is calling for an amnesty for all former union members to be elected to leadership positions again.

Under a legal amendment passed in 1989 the government has given itself extensive powers to intervene in strikes and lock-outs.

In February, the Geneva-based ILO warned that the changes "pose a serious threat to the exercise of freedom of association" in Turkey.

John Murray Brown

TOURISM

Operators stress need for marketing

ALTHOUGH Turkish tourism has finally achieved the breakthrough which had eluded it for two decades, the industry has had a lacklustre season in 1990.

Though the Tourism Ministry reports an increase of18.6 per cent on 1989 in the number of tourists between January and August and a 13.8 per cent rise in revenues, it seems fairly clear that targets for the year have not been met. Tourism operators, such as AKTID – the Association of Mediterranean Tourism Operators – have warned that with newly built hotels standing empty, some firms are being forced to *cut their prices*.

The picture is by no means entirely gloomy, however. Some UK operators report full bookings *throughout the* season and tourism revenues yet again look set to top the $2.3bn mark. In Turkey, just as in Spain two decades ago, tourism is helping finance the country's industrialisation.

By Mediterranean standards, the industry is still relatively small. The Ministry of Tourism has 150,159 tourist beds – roughly three times the number that existed five or six years ago, but still small compared to the 697,000 tourist beds in Greece.

It seems clear that targets have not been met

Mr Turgut Tüten, deputy under-secretary at the State Planning Organisation, says that he believes that the industry is suffering from a temporary oversupply of beds. "Generous incentives drew a lot of construction companies into the sector, as well as small scale private operators. What we *really need now is a shift to* promotion and marketing."

Until now, developers have been tempted by a generous series of incentives, including:
- a cash grant of 30 per cent of their fixed investment;
- leases of state land for 49 years – though less land is now available in the past;
- a tax allowance of 100 per cent deductible from corporation taxes, though until this year without any inflation allowance.

Other changes might involve a more selective regional approach. Outside Istanbul, the tourism industry has grown up in the *south* Aegean and along the Mediterranean coast, but there are also investments in specialist holidays, from spa resorts to skiing, mountaineering and hunting.

One change now underway is to lengthen the Turkish *tourism* season. "Ten years ago, the season lasted only from April to September and the winter was dead. Nowa*days it lasts from March to* December", says Mr Ferit Epikmen, an Istanbul travel agent who was until last year president of Tursab, the national tour operators' association.

Another priority is to curb some of the damage that has been part of the cost of a rapidly expanding tourism industry. In the early 1980s, planning controls were relaxed as local municipalities gained more power. The results stare tourists in the face in many resorts which were unspoilt only a decade ago: a hotel in the middle of the panoramic view of Göreme valley; a thin *concrete* wall of tightly packed apartment blocks, running for about 15km, has replaced the lush banana groves in the bay of *Alanya. There is even build*ing going on the beach.

"Frankly I am not sure whether tourists will even want to come here in another five years", says one Alanya resident, adding that most of the overbuilding has not been carried out by local companies but by developers from Istanbul and Ankara.

Travel companies, both Turkish and foreign, have been vocal in their criticisms of haphazard development.

"Where *local government is* in control, there is little we can do", says Mr Tüten. He recognises that some areas have been, as he puts it, "quite destroyed" by overbuilding, but feels that central government has little chance of reversing the trend.

"Local politics prevail and if they continue to do so indefi*nitely, everything will be* ruined. But our country is very big and I do not believe that it is necessarily too late yet", says Mr Epikmen.

He believes that the tourism industry could grow to the point where it has more than 1m or even 2m beds and could take up to 30m visitors a year.

"Potentially the industry could be earning us around $25bn a year", he says. "The big market for us is always going to be the European mar*ket. We are well placed to take* advantage of it."

Above: the beach at Olu Deniz, free of building work; travel companies have criticised over-development. Below: the new Sheraton under construction in Ankara, with the Hilton alongside

To make much further progress, however, several bottlenecks have to be overcome. They include:
- a serious shortage of trained and qualified staff;
- additional infrastructure, especially the building of new hotels and the improvement of air services: new airports are being planned for Bodrum on the Aegean and for Cappadocia in the interior;
- increased co-operation with Greece, especially in the Aegean where the tourism industries of the two countries already overlap;
- improved marketing – at *present many small developers* put up hotels and give them three, four, or even five star grading and hope that the business *will just flow in*;
- some way of separating the local holiday business – much of which consists of building summer homes for use for a few weeks in the year – from the international tourism industry.

In large cities, a new problem already looms: excess capacity. Five years ago, Ankara had not one international five star hotel and visitors almost always stayed in the Grand Ankara Hotel. Today the Grand Ankara has two rivals: the Etap Altinel and the Hilton, the latter opened a year ago. Next year and even grander Sheraton *hotel* will open in the Turkish capital.

Down on the Mediterranean coast, there is a newly opened Hilton Hotel at Mersin (a port and business centre rather than a tourism resort) and the newly opened 409-room Sharaton Voyager Hotel in Antalya. In Istanbul, five existing five star hotels will soon be joined by *another* five. Is there enough business for everybody?

"We certainly need better marketing", says Mr Epikmen. "For example, everyone agrees that the Antalya Sheraton Voyager is one of the most remarkable new hotels in the entire Mediterranean. But I don't seem to have been sent a price list for it yet."

Improved marketing and communications are becoming an increasing priority. The eastern Mediterranean coast, for example, is served by an airport more than an hour's drive away outside the large industrial city of Adana. "In other words, to get tourists *into* hotels on the coast between Mersin and Silifke, you have to expect them to put up with a two or even three *hour drive", says one Mersin* travel agent. "Since there is a vast plain here, I cannot see any logical reason why the airport *is sited* where it is."

A host of new local airlines, such as Green Air, is also helping change things. Turkish Airlines operates a relatively small number of flights from the tourism centres. It has only *one flight* a week between Antalya and Ankara, the capital, for example. As many tourism resorts are between 50 and 100 miles from Antalya, catching the 7.30am flight to Istanbul may mean rising long before dawn to get to Antalya – and perhaps waiting several hours in Istanbul for a connecting flight.

Haphazard developments have been criticised

David Barchard

THE MEDIA

Changing channels

EIGHT O'CLOCK on a winter's evening. The family gathers around the television, first to watch BBC news - and after a minute or two to compare the news from Baghdad on CNN. A moment or two later they switch to a German TV quiz programme, glance at a Swedish rock concert on Nordic Television, and eventually settle on a French film.

This is not tomorrow's world; it is Ankara in 1990, where a trial project by the PTT is bringing satellite television to thousands of homes. The initial aim is to bring cable television to 2m homes in Turkey's three largest cities over the next two years, and follow it with a further 2m in another seven cities.

Though the service is cheap, many Turks cannot wait. They are installing large satellite dishes on top of new apartment blocks which can scoop foreign transmissions down from sky, or pressing their local municipalities to set up local satellite and cable relay services.

"The audience that the foreign satellite transmissions are reaching is anyone's guess", says Mr Nuri Çolakoglu, managing director of Turkish-German TV, a joint venture set up early this year to beam TV pro*grammes to* Turkey *from* western Europe.

"I guess there are around 2m households already receiving *satellite television and that* perhaps two-thirds of these are in Istanbul and its immediate hinterland", Mr Çolakoglu says.

Turkey's state-controlled television service, TRT - which traditionally offers a mixture of ponderous sanitised news broadcasts, lengthy concerts of oriental music, religious programmes and old films - has begun to show signs of change. It now has five channels (one intended mainly *for* Turks out*side the country, and another* aimed at the south-eastern provinces) - and offers an increasingly heavy proportion of rock concerts and similar fare to the satellite stations.

This is partly because TRT already has a direct competitor in the local market, even though private television has not yet been allowed. 'Magic Box', the first Turkish-language satellite TV operation, got underway this summer. Its backers are unclear, but some believe that it has support at the highest levels.

The channel's main problem seems to be raising advertising income. Apart from rock concerts, the channel's main attraction seems to be its contract to televise football from Turkey's four biggest clubs. A substantial part of its income seems to come from the sale of dish aerials.

There are still legal blocks to private television in Turkey. Legislation will probably come, but only after the more conservative elements in the political establishment finally concede that state control of all broadcasting is a thing of the past.

Television is only one of several media areas rapidly undergoing internationalisation. Several international film companies, including Warner Brothers, have set up local franchises. "There has been an enormous widening of scope as a result", says Mr Çolakoglu. "Films on show in Istanbul now more or less correspond to what is showing in London."

Are these developments entirely market-driven or is there some underlying rationale? For several years, leading figures in the Motherland Party, including Mr Adnan Kahveci, currently finance minister but for many years a 'think tank' adviser to President Ozal, have argued that television is the *most obvious* way to modernise society and culture in a generation or two. Mr Kahveci's proposal for a multi-channel educational television service has not been translated into reality, but the idea of drenching society in television seems to have caught on.

There are profound cultural and political implications. Islamic *fundamentalists*, making a strong play for power, are not pleased. "In our family, we *do not* allow anyone to watch television. We don't even have a television in the house", says one supporter of the ultra-religious National Salvation Party.

However, according to Mr Çolakoglu, 96 per cent of Turkish homes now have television and two-thirds of these have colour televisions.

One factor which might appeal to the government is that television tends to be less crudely political than the press: most of Turkey's newspapers, apart from a section of the religious press and the press empire of Mr Asil Nadir, the Polly Peck International chairman, are hostile to President Turgut Ozal and the Motherland Party.

Editors say *that they* have been punished heavily for their attitudes by Mr Ozal. "When the government wants to hurt us more, *all that is* necessary is a telephone call to SEKA [the state pulp and paper corporation] telling it to hike its prices for *newsprint by* another 30 per cent. That kills off our circulation", says one journalist.

With the collapse of *Polly* Peck, there is uncertainty about the future of Mr Nadir's papers, especially Güneş, a quality upmarket *daily which* undercut its main rival, Cumhuriyet, on the news stands, but only - its rivals claim - at the cost of a heavy subsidy. The urgency of Güneş's plight was underlined last month, when staff were not paid their monthly salaries.

There have also been signs of other entrepreneurs taking an interest in Turkish media. Last summer, Mr Rupert Murdoch, chairman of News International, met President Ozal and was thought to be interested in operating a TV channel in Turkey. Mr Robert Maxwell, chairman of Maxwell *Media Corporation*, tried to negotiate the purchase of a large holding in Hürriyet, one of Turkey's main dailies, but seems to have run up against the unwillingness of the Simavi family which own it to surrender control.

Mr Orhan Duru, co-ordinator of Hürriyet, says he thinks the deal is now off. Meanwhile Turkey's dailies fight the circulation battle with free gifts - from copper bracelets to dictionaries - amidst complaints that censorship, especially on the war in south east Anatolia, makes it impossible for them to do their job fully. Last April Mr Ozal introduced a decree allowing the government to confiscate presses of organisations printing "harmful" reports. It is a risk no large paper is willing to take, and has driven around 15 smaller magazines off the market.

David Barchard

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